



KASB Bank
Limited

ANNUAL REPORT

DECEMBER 2006

(AUDITED)

Corporate Information

Board of Directors	<i>Chairman</i> :	H. U. Beg
	<i>Directors</i> :	Nasir Ali Shah Bukhari Sohail Wajahat H. Siddiqui Tariq M. Rangoonwala Irtiza Husain N. K. Shahani Muneer Kamal
President / Chief Executive Officer		Muneer Kamal
Audit Committee	<i>Chairman</i> :	H. U. Beg Tariq M. Rangoonwala N. K. Shahani
Human Resource & Remuneration Committee	<i>Chairman</i> :	H. U. Beg Nasir Ali Shah Bukhari Muneer Kamal
Risk Management Committee	<i>Chairman</i>	Nasir Ali Shah Bukhari Tariq M. Rangoonwala Muneer Kamal
Auditors		A. F. Ferguson & Co.
Legal Advisors		Ghulam Ali & Co.
Registered Office and Head Office		Business & Finance Centre, I.I. Chundrigar Road, Karachi Tel : (92-21) 2446772-77 Fax : (92-21) 2446828 & 2446865
Regional Office, Lahore		76-B, E-1, Main Boulevard, (Next to Hafeez Centre,) Gulberg-III, Lahore-54000. Tel : (92-42) 5764288-9 Fax : (92-42) 5755358 & 5760079
Registrar and Share Transfer Office		Noble Computer Services (Pvt.) Ltd. 2nd Floor, Sohni Centre, BS 5&6, Main Karimabad, Block-4, Federal 'B' Area, Karachi. Tel : (92-21) 6801880-2 Fax : (92-21) 6801129

NOTICE OF THE TWELFTH ANNUAL GENERAL MEETING

NOTICE is hereby given that the Twelfth Annual General Meeting of KASB Bank Limited ("**KASB Bank**") will be held on Wednesday, March 28, 2007 at 11:00 a.m. at Pearl Continental Hotel, Club Road, Karachi to transact the following business:

1. To confirm the Minutes of the Annual General Meeting held on March 29, 2006.
2. To adopt the annual audited accounts of KASB Bank and the consolidated annual audited accounts of KASB Bank for the year ended December 31, 2006 together with the Directors' and Auditors' Reports thereon.
3. To appoint auditors for the year ending December 31, 2007 and to fix their remuneration.

4. SPECIAL BUSINESS:

- i. To consider and if thought fit pass the following special resolutions, with or without modifications, to approve, adopt and agree to the Scheme of Amalgamation between International Housing Finance Limited ("**IHFL**") and KASB Bank for amalgamation of entire undertaking including all the properties, assets (including all receivables) and liabilities and all the rights and obligations of IHFL with and into KASB Bank.

RESOLVED:

- a) IHFL will be amalgamated with and into KASB Bank under Section 48 of the Banking Companies Ordinance, 1962 in accordance with the Scheme of Amalgamation to be sanctioned by the State Bank of Pakistan.
 - b) The Scheme of Amalgamation as placed in draft form is hereby approved subject to any modifications which may be required by the State Bank of Pakistan.
 - c) To comply with the procedure for amalgamation as prescribed in Section 48 of the Banking Companies Ordinance, 1962 and take all necessary actions and steps for implementation of the same.
 - d) The President & Chief Executive of KASB Bank be and is hereby authorized to execute all the necessary documents for the purpose and take all necessary actions required for implementing the Scheme of Amalgamation and all actions necessary or desirable in respect of the same.
- ii. To consider and if thought fit pass the following special resolutions, with or without modifications, to approve the Employees Stock Option Scheme ("**ESOS**") for allotting 9,170,832 shares at par value of Rs.10 each share, being 4% of the existing paid up capital of KASB Bank under section 86 (1) of the Companies Ordinance, 1984.

RESOLVED:

- a) The ESOS as placed in draft form is hereby approved subject to any modifications which may be required by the Securities and Exchange Commission of Pakistan.
 - b) To comply with the procedure and requirements of Section 86 (1) of the Companies Ordinance, 1984 and take all necessary actions and steps for implementation of the same.
 - c) The President & Chief Executive of KASB Bank be and is hereby authorized to execute all the necessary documents for the purpose and take all necessary actions required for implementing ESOS and all actions necessary or desirable in respect of the same.
5. To transact any other business with the permission of the Chair.

Place: Karachi
Date: March 6, 2007

By Order of the Board
Muneer Kamal
President & CEO

NOTES:

- 1) The Share Transfer Books of KASB Bank will be closed from March 28, 2007 to April 4, 2007 (both days inclusive).
- 2) All shareholders are entitled to attend and vote at the meeting.
- 3) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend the meeting and vote for him/her. A proxy must be a member of KASB Bank.
- 4) Proxy Form in order to be effective must be received by KASB Bank at its Registered Office (Business & Finance Centre, I.I. Chundrigar Road, Karachi) duly stamped and signed not less than forty-eight hours before the meeting.
- 5) Account holders/sub account holders holding book entry securities of the company in Central Depository System of Central Depository Company of Pakistan Ltd who wish to attend the meeting are requested to bring with them their National Identity Card, original passport with a photocopy duly attested by their bankers for identification purposes. In case of corporate entity, the Board of Directors' Resolution/Power of Attorney with specimen signature of the nominee shall be produced, unless it has been provided earlier, at the time of meeting along with the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders.
- 6) Members are requested to promptly notify the change of address, if any, and also for the consolidation of folio numbers, if any, to our Registrar, Noble Computer Services (Private) Limited, 2nd Floor, Sohni Centre, Main Karimabad, Block-4, Federal B Area, Karachi.

**STATEMENT UNDER SECTION 160 (1) (b) OF
THE COMPANIES ORDINANCE, 1984 – AMALGAMATION OF
INTERNATIONAL HOUSING FINANCE LIMITED WITH AND INTO KASB BANK**

IHFL will be amalgamated and merged with and into KASB Bank in accordance with Section 48 of the Banking Companies Ordinance 1962.

The draft Scheme of Amalgamation has been kept at the Registered Office of KASB Bank which can be inspected during office hours on any working day.

The Directors of KASB Bank have no other interest in the special business and/or the resolutions, whether directly or indirectly, except to the extent of their shareholding in the companies.

**STATEMENT UNDER SECTION 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984 –
EMPLOYEES STOCK OPTION SCHEME**

In order to give appropriate incentives to the high performing employees of KASB Group as also to attract quality staff for employment with ownership stake in KASB Bank, shares of KASB Bank will be allotted in accordance with the terms of the Employees Stock Option Scheme as provided for in Section 86 (1) of the Companies Ordinance, 1984.

The draft Employees Stock Option Scheme has been kept at the Registered Office of KASB Bank which can be inspected during office hours on any working day.

The Directors of KASB Bank have no other interest in the special business and/or the resolutions, whether directly or indirectly, except to the extent of their shareholding in KASB Bank.

DIRECTORS' REPORT TO THE SHAREHOLDERS

I have the privilege of presenting, on behalf of the Board of Directors of your Bank, the Twelfth Annual report of your Bank containing the audited financial statements of KASB Bank Limited and consolidated financial statements of the Bank and its subsidiaries for the year ended 31 December, 2006.

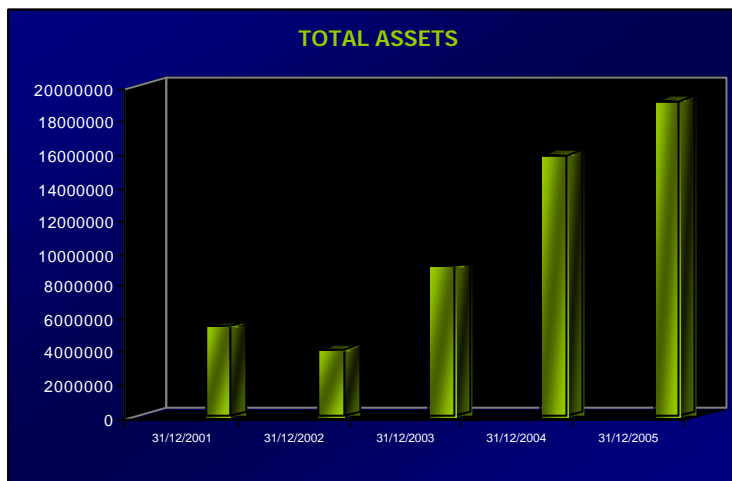
A YEAR OF SIGNIFICANT CHANGES

This year, 2006, has been a year of significant changes in the Bank. Some of the changes are obvious, some are mildly apparent and yet others are monumental changes which, though not obvious and apparent today, will certainly be apparent to all our stakeholders in the coming years.

One of the more obvious changes has been the changing of our logo and our signage on all the branches. This is not merely a cosmetic change; we believe that this re-branding of the Bank is in line with the re-organization and direction that KASB Bank is taking.

PICs OF BRANCH WITH NEW SIGNAGE

Another obvious change has been the increase in the balance sheet size with the Total Assets increasing to Rs.26.539 million (2005: Rs.19.103 million, an increase of 38.9%), Advances increasing to Rs.14.513 million (2005: Rs.10.739 million, an increase of 35.1%), and Deposits increasing to Rs.21.276 million (2005: Rs.14.828 million, an increase of 43.5%).



The bottom line of the Bank has also improved from a pre-tax loss of Rs. 511 million to a profit of Rs.52.795 million. This increase in the bottom line factor viz. profitability has been despite the aggressive drive to recognize the delinquent portfolio and provide adequately against the NPLs.

In our consumer and retail banking business we follow a multi-product strategy. We have successfully launched branded liability products such as Mahana Khazana, Maheena Asaan and Business Flex.



We have also launched a unique consumer product, Education Asaan, a customized product designed specifically to provide flexibility and convenience to parents, facilitating them in making timely and hassle free payments against their child's education.



KASB Bank offers its customers the facility to pay their utility bills. Customers just need to register their bill consumer number with the Bank and subsequently start paying their bills through KASB Bank. This service is available round the



clock. Customers have the option of either using their ATM, Call Centre or the Online Banking Site of the Bank.

We have also introduced e-banking, enabling customers to access all their account related information on the web. This service also enables customers to generate statements, transfer funds, and make bill payments. With time we will be offering more options on e-banking enabling the Bank's customers to take care of their financial transactions any time and from any place.



KASB Connect is a state-of-the-art countrywide Toll-Free contact center, with IVR and Personalized Services round-the-clock. This enables our customers to have a 24/7 year long access to call centre officers to assist them with their banking needs and to use all phone banking services, such as balance inquiry, bill payment, request statements and information from their phones.



We have an entire menu of consumer products in the pipeline, of which two products, a running finance facility for individuals, and a mortgage finance product, are to be launched before end of June this year. The current product menu and the future offerings will aim to strengthen our relationship with our customers by facilitating them to meet all their financial needs through a one-stop banking, asset and wealth management services.

I mentioned earlier that some of these changes are monumental but not apparent today, but we believe that they are significant and will be evident to all our stakeholders in the coming years. These are:

1. The Establishment of the Service Quality Group

The establishment of service quality at KASB Bank was a major initiative, with full commitment and support of the President down to the junior most staff. KASB Bank is the only local bank with a service quality department in Pakistan. The aim of the Service Quality Group is to strengthen the Bank's service culture, competitiveness and infrastructure by working closely with our colleagues and focusing on customer satisfaction and process improvement in order to achieve our fundamental business objectives of 'growing', 'deepening' and 'retaining' customer relationships. In this increasingly competitive business, service will be the key differentiating factor to attract and retain business, thus we believe that the focus on service quality will not only increase customer satisfaction but going forward will translate in a healthy bottom line.

2. The Merger of IHFL

A key decision of our principal sponsor, the directors and the management was to merger International Housing Finance Limited (IHFL) into KASB Bank. This was a strategic acquisition by our principal sponsor and with the completion of the merger formalities; the Bank will have a robust mortgage finance portfolio of over Rs. 800 million on its book. This merger will jump start our mortgage finance product that the management and the Board of Directors had already approved and was in the pipeline to be launched in second quarter of the year 2007. We believe that mortgage financing is one of the most important consumer assets. Worldwide, mortgage financing is the largest portion of consumer assets and we believe that going forward this will have to be the case in Pakistan as well.

3. Introduction of MISYS Banking Software

Technology is one of the most important ingredients in today's business, it is even more so in banking. The KASB Group is extremely technology conscious and the Bank has decided to upgrade its banking software and is in the process of implementing MISYS (a global banking software). The implementation process is expected to be completed in 2007. With the implementation in place, the access to information for the purposes of monitoring, providing timely information to the business managers, offering complex financial solutions to our

customers would be facilitated, improve customer service, enabling the people to optimize their functional performance.

4. Risk Management Initiatives

The risk management unit of our Bank has been substantially reinforced with hiring of experienced personnel, new policies and procedures set out in line with the State Bank's requirements and international best practices.

KASB Bank has recently initiated a process to set up a risk management framework which is designed to ensure sound risk management practices and effective risk management. The cornerstone of our risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and limits, which involve our risk management professionals, business segments and other functional teams. This partnership is designed to ensure the ongoing alignment of business strategies and activities with our risk appetite.

5. Strengthening Human Resource

While we realize that the a combination of viable product offering, a state of the art technology platform, a strategic plan to chart the bank's direction, risk management, internal control, and a culture of service quality are extremely important, all these cannot be achieved without the "right" people. In 2006, we have inducted several senior level employees to supplement the human resource in our bank. In order to achieve our strategic plan, people with the right experience and expertise are essential. In order to attract the right people, in the first phase we have market aligned the salaries of the staff based on unique job positions. We have also introduced a performance management system to incentivize high performers. With this performance based reward system, we will be able to monetize rewards for the top performers and eventually weed out underperforming employees.

CORPORATE GOVERNANCE

The management and the Board are very conscious of the requirements of good governance. The following requisites have been duly met in managing the Bank in compliance of the best practices:

- ? The financial statements prepared by the management of the Bank present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- ? Proper books of account of the Bank have been maintained.
- ? Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- ? International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- ? The system of internal control is sound in design and has been effectively implemented and monitored on best possible efforts.
- ? There are no doubts upon the Bank's ability to continue as a going concern.
- ? There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- ? Key operating and financial data of last six years has been given with the Directors' Report.
- ? No loans have been allowed to any of the Directors and their own concerns and associates. There is no outstanding statutory payment on account of taxes, duties, levies and charges.

Employee Benefits Scheme

Value of investments of Employees' Provident Fund based on its un-audited accounts for the year ended December 31, 2006 is Rs.54.134 million out of which the Principal amount is Rs.51.668 million.

Share Acquisitions by Directors

The following acquisitions of shares were made by the Directors of the Bank during the year 2006:

- Allotment of 107,942 shares of the Bank in the name of Mr. H. U. Beg, Chairman on subscription to the Right Shares offer.

- Allotment of 4,755,817 shares of the Bank in the name of Mr. Nasir Ali Shah Bukhari, Director on subscription of Right Shares offer. Further allotment of 27,800,000 shares in his name towards increase of capital of the Bank by subscription other than Right Shares with the approval of the members and the Securities and Exchange Commission of Pakistan.
- Allotment of 118 shares of the Bank in the name of Mr. Sohail Wajahat H. Siddiqui, Director on subscription to the Right Shares offer.
- Allotment of 507 shares of the Bank in the name of Mr. Tariq M. Rangoonwala, Director on subscription to the Right Shares offer.
- Allotment of 2,696,430 shares of the Bank in the name of Mr. Arif Ali Shah Bukhari, ex-Director on subscription to the Right Shares offer.
- Allotment of 90 shares of the Bank in the name of Mr. William Knight, ex-Director on subscription to the Right Shares offer.
- Allotment of 90 shares of the Bank in the name of Mr. Faridud Din Ahmad, ex-Director on subscription to the Right Shares offer.
- Beneficial ownership acquisition by Mr. N. K. Shahani, Director for 3,000 shares.
- Beneficial ownership acquisition by Mr. Irtiza Husain, Director for 500 shares.
- Beneficial ownership acquisition by Mr. Muneer Kamal, Director for 500 shares.
- No other trading in the shares of the Bank was carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children during the year 2006.

Pattern of Shareholding

The Pattern of shareholding as at December 31, 2006 along with disclosure required under the Code of Corporate Governance is annexed to the Report.

Board of Directors Meetings

Six (6) Board meetings were held during the financial year. Information about the attendance is as under:

Name of Director	No. of meetings attended
Mr. H. U. Beg	6
Mr. Nasir Ali Shah Bukhari	6
Mr. Sohail Wajahat H. Siddiqui	1
Mr. Tariq M. Rangoonwala	3
Mr. Muneer Kamal (Director/Chief Executive)	6
Mr. Arif Ali Shah Bukhari	3 (ceased to be Director from 21.11.2006)
Mr. Farid ud Din Ahmad	1 (ceased to be Director from 02.03.2006)
Mr. William Knight	6 (ceased to be Director from 8.12.2006)
Mr. N. K. Shahani	1 (co-opted as Director from 21.11.2006)
Mr. Irtiza Husain	- (co-opted as Director from 8.12.2006)

Credit Rating

The Pakistan Credit Rating Agency (Pvt.) Ltd. has maintained the medium to long term rating of BBB + (Triple B Plus) with a 'stable' outlook and a short term rating of A-2 (A Two) to the Bank. The long term rating denotes good credit quality with a low expectation of credit risk and the adequate capacity for timely payment of financial commitments. Similarly the short term ratings denote obligations supported by a satisfactory capacity for timely repayment. Overall these ratings have been assigned a positive outlook.

Auditors

The Present auditors M/s. A. F. Ferguson & Co., Chartered Accountants retire and offer themselves for reappointment. On the recommendations of the Audit Committee of your Bank, the Board has agreed to recommend for the re-appointment of M/s. A. F. Ferguson & Co., Chartered Accountants, to function as Bank's statutory auditors for the current year ending December 31, 2007.

I wish to recognize the sterling contribution of our hard-working management and staff which has enabled the Bank to meet with the challenges of the restructuring of the organization with the pressures of continuous improvement and expectations to raise the standard on an on-going basis, and for this I thank them sincerely.

I would also like to pay a special tribute to Mr. Arif Ali Shah Bukhari, Mr. William Knight, who retired as Directors of the bank on November 21, 2006. I join the rest of the Bank in thanking them for their valuable contribution to the organization.

Furthermore I would like to formally welcome Mr. N. K. Shahani and Mr. Irtiza Husain as members of the Board of Directors. I am confident that their addition would augment the depth of knowledge and expertise of the Bank.

I would like to acknowledge the contributions of Muneer Kamal who took over the charge of the Bank in November 2005 and has done so much over the past 14 months for not only the bank but for the entire group.

Obviously all this could not be achieved without the continued trust of our customers as well guidance and support of the State Bank of Pakistan for which I would like to express our gratitude to them.

H. U. Beg
Chairman

Karachi
06 March 2007

KEY FINANCIAL DATA

	2001	2002	2003	2004	2005	2006
[Rs in Million]						
Paid-up Share Capital	616	616	1,293	1,707	2,015	2,293
Reserve Fund & Other Reserves	91	(23)	(77)	5	(268)	(131)
Shareholders' Equity	707	593	1,216	1,712	1,747	2,162
Total Assets (Excluding Contra)	5,376	4,037	8,990	15,853	19,103	26,539
Deposits	3,991	2,640	5,451	11,201	14,828	21,276
Advances-net	2,147	490	3,647	8,295	10,739	14,513
Investments-net	1,111	2,118	2,395	2,687	3,822	4,694
Imports & Export Business	9,505	3,805	6,173	8,303	10,895	16,798
Pre-tax Profit / (Loss)	(87)	(102)	56	16	(511)	53
Post-tax Profit / (Loss)	(68)	(114)	25	98	(273)	137
No.of Branches	18	18	19	21	35	35
No.of Employees	444	292	328	398	569	694
Bonus Shares	-	-	-	-	-	-
Earning / (Loss) per share - Rupees	(1.10)	(1.85)	0.20	0.68	(1.52)	0.64
Break up value per share - Rupees	11.48	9.62	9.40	10.25	8.70	9.43

STATEMENT OF VALUE ADDED

Added as Follows	2006		2005	
	(Rupees in '000)	%	(Rupees in '000)	%
Markup/Return Earned - net of Provisions	1,749,060	72%	573,808	56%
Deferred Tax & Other Income	129,331	5%	265,291	26%
Fee, Commission and Brokerage Income	93,035	4%	94,264	9%
Dividend Income	172,800	7%	30,174	3%
Profit on Investment	254,747	10%	18,481	2%
Income from Dealing in Foreign Currencies	47,454	2%	45,342	4%
Total Value Added	2,446,427	100%	1,027,360	100%
Distributed as Follows				
To Employees as Remuneration	385,067	16%	268,453	26%
To Society as Donations	13	0%	8,600	1%
To Depositors as Profit on Investments	1,234,592	50%	442,727	43%
Profit on Borrowings	194,453	8%	221,681	22%
To Government as Income Tax	19,868	1%	9,541	1%
To Shareholders as Dividends	-	0%	-	0%
Administrative Expenses / other provisions / other charges	475,087	19%	349,392	34%
Retained in Business as Reserves and Retained Profits	137,347	6%	(273,034)	-27%
Total Value Distributed	2,446,427	100%	1,027,360	100%

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance for the purpose of establishing a framework of good governance, whereby the Bank is managed in compliance with the best practices of corporate governance.

The Bank has applied the principles contained in the Code in the following manner:

- ? The Board consists of seven directors including six non-executive directors. None of the directors is serving as a director in more than ten listed companies including the Bank.

Mr. Faridud Din Ahmad, Mr. Arif Ali Shah Bukhari and Mr. William Knight, Directors resigned and relinquished their directorships and the casual vacancies were filled by induction of Mr. Muneer Kamal, Mr. N. K. Shahani and Mr. Irtiza Husain on April 24, 2006 November 21, 2006 and December 8, 2006 respectively.

- ? All the Directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to any bank/ DFI/NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange. The Directors on the Board of the Bank are individuals of repute and integrity with vast diversified experience of the corporate affairs. Except the newly appointed directors all others attended the orientation program held on May 29, 2006 under the aegis of State Bank of Pakistan.
- ? The Board has already formulated 'Vision Statement' and 'Mission Statement'.
- ? 'Statement of Ethics and Business Practices' has been signed by the Directors and employees of the Bank.
- ? Corporate strategies and significant policies of the Bank have been made with appropriate delegation of authorities and responsibilities to various levels of management. Record of particulars of significant policies and the approvals/amendments has been maintained.
- ? Powers of the Board are duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.
- ? The Board has approved appointment of CFO and Company Secretary, including their remuneration and terms and condition of employment, as determined by the CEO.
- ? Board meetings were held at least once in a quarter presided over by the Chairman. Written notices of the Board meetings along with agenda were circulated seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
- ? The Directors, Chief Executive and Executives do not hold any interest in the shares of the Bank other than that disclosed in the pattern of shareholding.
- ? The Directors' Report for the year ended December 31, 2006 has been prepared in compliance with the requirements of the Code and the corporate and financial reporting requirements have been complied with.
- ? The financial statements of the Bank for the year ended December 31, 2006 were duly endorsed by Chief Executive and Manager Financial Reporting & Tax before approval of the Board.

- ? The Board has formed an Audit Committee comprising of three non executive Directors. Terms of reference of the Audit Committee have been determined. The meetings of the Audit Committee were held at least once every quarter.
- ? An effective Internal Audit Department already exists and the Board has set up an effective internal audit function. The staff of Internal Audit Department are suitably qualified and experienced for the purpose and are conversant with the policies and procedure of the Bank and they are involved in the internal audit function on a full time basis.
- ? The system of sound internal control is in place and effectively monitored in the Bank.
- ? The statutory auditors of the Bank have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan.
- ? The statutory auditors of the Bank have confirmed that they or any partner in the firm of statutory auditors, his spouse and minor children do not at any time hold, purchase, sell or take any position in shares of the Bank.
- ? The statutory auditors of the Bank or person associated with them have not been appointed to provide other service except in accordance with the listing regulations and the auditors have confirmed that they have observed the IFAC guidelines in this regard.
- ? The quarterly un-audited financial statements of the Bank are circulated along with the Directors' review.
- ? Half - yearly financial statement were subjected to limited review by the statutory auditors. Financial statements for the year ended December 31, 2006 have been audited and will be circulated in accordance with the clause (xxii) of the Code.
- ? Material principles contained in the Code have been complied with.

H. U. Beg
Chairman

Karachi
March 6, 2007


REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of KASB Bank Limited to comply with Regulation G-1 of the Prudential Regulations for Corporate / Commercial Banking issued by the State Bank of Pakistan, Listing Regulation No. 37 of the Karachi Stock Exchange, Chapter XIII of the Lahore Stock Exchange and Chapter XI of the Islamabad Stock Exchange where the Bank is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Bank. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Bank's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Bank personnel and review of various documents prepared by the Bank to comply with the Code.

As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Bank's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Bank for the year ended December 31, 2006.


Chartered Accountants
Karachi

Dated: March 7, 2007

STATEMENT OF INTERNAL CONTROLS

REPORTING ON INTERNAL CONTROL SYSTEM

The Board is responsible for the overall policies on internal control and it is the responsibility of bank's management to establish and maintain an adequate and effective system of internal control that could help in achieving the aims and objectives of the Bank.

In line with the international standards, KASB system of internal control is designed to provide reasonable assurance regarding achievement of the following three objectives that all businesses strive for:

- 1. Effectiveness and efficiency of operations;*
- 2. Reliability of financial data and reports; and*
- 3. Compliance with laws and regulations*

At KASB system of internal control and its implementation is an ongoing process and there is always room for improvement. Our Internal Control System is designed to identify and prioritize the risks to the achievement of the Bank's policies, aims and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized and to manage them efficiently, effectively and economically.

EVALUATION OF EXISTING INTERNAL CONTROL SYSTEMS

Management ensures the efficient and effective Internal Control System by identifying control objectives, reviewing policies / procedures and establishing relevant control procedures. All policies and procedures are reviewed and compared with existing practices and necessary amendments made where required on timely basis in line with the risk management framework and best practices.

The Bank's internal control environment comprises systems, policies and to:

- ✍ Establish and monitor the achievement of Bank's objectives.
- ✍ Facilitate policy and decision making
- ✍ Ensure compliance with established policies, procedures, laws and regulation
- ✍ Identify , assess and manage the risks to the Bank's objectives including risk management
- ✍ Ensure the economical, effective and efficient use of resources and
- ✍ Safeguarding of assets
- ✍ Provide appropriate financial management and reporting of the Bank's affairs
- ✍ Ensure adequate performance management and reporting

Independent Audit and Compliance Departments have also been strengthened:

- ? To provide independent and reasonable assurance that risk management and control process are adequate, effective and sustainable and;
- ? Contribute in continuous improvement of the Bank's risk management and control process.

The observations and weaknesses found and identified by the auditors, are taken care of immediately and necessary steps taken by the management to ensure non-repetition of those exceptions and eliminations of such weaknesses to the maximum possible level. The management has also given timely and satisfactory response to the recommendations and suggestions made by its auditors.

Compared to the previous year the internal control system, customer services and operation has improved in all areas / departments of the bank. Moreover training wherever required is being given to the personnel to keep them up-to date with the necessary skills required in line with the Banks operations.

Manager Financial Reporting & Tax

Head of Internal Audit

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
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AUDITORS' REPORT TO THE MEMBERS


We have audited the annexed balance sheet of **KASB Bank Limited** as at December 31, 2006, and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the 'financial statements') for the year then ended, in which are incorporated the unaudited certified returns from the branches except for eight branches which have been audited by us and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit.

It is the responsibility of the bank's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards and the requirements of the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and after due verification, which in the case of loans and advances covered more than sixty percent of the total loans and advances of the bank, we report that:

- (a) in our opinion, proper books of account have been kept by the bank as required by the Companies Ordinance, 1984 (XLVII of 1984) and the returns referred to above received from the branches have been found adequate for the purposes of our audit;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the change as stated in note 5.14 to the financial statements, with which we concur;
 - (ii) the expenditure incurred during the year was for the purpose of the bank's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the bank and the transactions of the bank which have come to our notice have been within the powers of the bank;
- (c) in our opinion and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the approved accounting standards as applicable in Pakistan, and give the information required by the Banking Companies Ordinance, 1962 (LVII of 1962), and the Companies Ordinance, 1984 (XLVII of 1984), in the manner so required and give a true and fair view of the state of the bank's affairs as at December 31, 2006 and its true balance of profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the bank and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Without qualifying our opinion we draw attention to note 20.3 and note 40 to the financial statements which highlights that the bank has not been able to meet the minimum paid-up capital requirement (net of losses) of Rs 3 billion and the capital adequacy ratio of 8 percent, as applicable to the bank for the current year. The State Bank of Pakistan has granted extension to the bank in meeting the aforementioned minimum capital requirements uptill March 31, 2007 in view of the fact that in order to achieve compliance with the above minimum capital requirements the bank has decided to merge with International Housing Finance Limited (IHFL), a company in which a sponsor / director of the bank has a significant shareholding.


Chartered Accountants
Karachi

07 MAR 2007 

KASB BANK LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2006

	Note	2006 (Rupees in '000)	2005
ASSETS			
Cash and balances with treasury banks	6	2,305,082	1,082,524
Balances with other banks	7	799,731	817,078
Lendings to financial institutions	8	2,305,232	1,077,546
Investments	9	4,694,312	3,821,943
Advances	10	14,512,718	10,739,337
Operating fixed assets	11	673,064	471,944
Deferred tax assets - net	12	488,621	383,201
Other assets	13	759,975	709,414
		26,538,735	19,102,987
LIABILITIES			
Bills payable	15	199,670	127,446
Borrowings	16	2,176,032	1,931,448
Deposits and other accounts	17	21,275,570	14,828,110
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	18	3,775	9,493
Deferred tax liabilities		-	-
Other liabilities	19	754,891	470,528
		24,409,938	17,367,025
NET ASSETS		<u>2,128,797</u>	<u>1,735,962</u>
REPRESENTED BY			
Share capital	20	2,292,707	2,014,707
Revenue reserves		111,748	84,279
Accumulated loss		(163,156)	(273,034)
Effect of fair value measurement of capital on amalgamation		(79,240)	(79,240)
		<u>2,162,059</u>	<u>1,746,712</u>
Deficit on revaluation of securities - net of tax	21	(33,262)	(10,750)
		<u>2,128,797</u>	<u>1,735,962</u>
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 43 and Annexure - I form an integral part of these financial statements.

President and Chief Executive

Director

Director

Director

KASB BANK LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 (Rupees in '000)	2005
Mark-up / return / interest earned	23	1,790,347	1,073,688
Mark-up / return / interest expensed	24	1,429,045	664,408
Net mark-up / return / interest income		<u>361,302</u>	<u>409,280</u>
Provision against non-performing loans and advances - net	10.4	68,149	463,724
(Reversal of provision) / provision for diminution in the value of investments	9.9	(26,862)	36,156
Bad debts written off directly	10.5	-	-
		<u>41,287</u>	<u>499,880</u>
Net mark-up / interest after provisions		<u>320,015</u>	<u>(90,600)</u>
Non mark-up / interest income			
Fee, commission and brokerage income		93,035	94,264
Dividend income		172,800	30,174
Income from dealing in foreign currencies		47,454	45,342
Gain on sale of securities - net	25	124,506	19,248
Unrealised gain / (loss) on revaluation of investments classified as held for trading	9.11	130,241	(767)
Other income	26	24,911	17,363
Total non mark-up / interest income		<u>592,947</u>	<u>205,624</u>
		<u>912,962</u>	<u>115,024</u>
Non mark-up / interest expenses			
Administrative expenses	27	853,523	622,397
Other provisions / write offs	28	1,456	54
Other charges	29	5,188	3,994
Total non mark-up / interest expenses		<u>860,167</u>	<u>626,445</u>
Extraordinary items		-	-
Profit / (loss) before taxation		<u>52,795</u>	<u>(511,421)</u>
Taxation - Current year	30	19,868	9,541
- Prior years	30	-	2,795
- Deferred	30	(104,420)	(250,723)
		<u>(84,552)</u>	<u>(238,387)</u>
Profit / (loss) after taxation		<u>137,347</u>	<u>(273,034)</u>
Accumulated loss brought forward		(273,034)	-
Accumulated loss carried forward		<u>(135,687)</u>	<u>(273,034)</u>
Basic / diluted earnings / (loss) per share	31	<u>0.64</u>	<u>(1.36)</u>

The annexed notes 1 to 43 and Annexure - I form an integral part of these financial statements.

President and Chief Executive

Director

Director

Director

KASB BANK LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Share capital	Statutory reserve	General reserve	Revenue reserves	Accumulated loss	Effect of fair value measurement of capital on amalgamation	Total
----- (Rupees in '000) -----							
Balance as at December 31, 2004	1,707,379	83,895	384	84,279	-	(79,240)	1,712,418
Right shares subscribed	307,328	-	-	-	-	-	307,328
Loss after taxation for the year ended December 31, 2005	-	-	-	-	(273,034)	-	(273,034)
Transfer to statutory reserve	-	-	-	-	-	-	-
Balance as at December 31, 2005	<u>2,014,707</u>	<u>83,895</u>	<u>384</u>	<u>84,279</u>	<u>(273,034)</u>	<u>(79,240)</u>	<u>1,746,712</u>
Issue of right shares	278,000	-	-	-	-	-	278,000
Profit after taxation for the year ended December 31, 2006	-	-	-	-	137,347	-	137,347
Transfer to statutory reserve	-	27,469	-	27,469	(27,469)	-	-
Balance as at December 31, 2006	<u><u>2,292,707</u></u>	<u><u>#####</u></u>	<u><u>384</u></u>	<u><u>111,748</u></u>	<u><u>(163,156)</u></u>	<u><u>(79,240)</u></u>	<u><u>2,162,059</u></u>

The annexed notes 1 to 43 and Annexure - I form an integral part of these financial statements.

President and Chief Executive

Director

Director

Directo

KASB BANK LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 (Rupees in '000)	2005
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / (loss) before taxation		52,795	(511,421)
Less: Dividend income		(172,800)	(30,174)
		<u>(120,005)</u>	<u>(541,595)</u>
Adjustments for non-cash and other items :			
Depreciation		72,069	54,830
Amortisation		33,807	25,862
Provision against non-performing loans and advances - net		68,149	463,724
(Reversal of provision) / provision for compensated absences		(2,160)	2,079
Provision for gratuity		21,475	-
Gain on sale of fixed assets - net		(4,747)	(4,174)
Finance charges on leased assets		481	1,650
Unrealised (gain) / loss on revaluation of investments classified as held for trading		(130,241)	767
(Reversal of provision) / provision for diminution in the value of investments		(26,862)	36,156
Amortisation of premium on investments		35,319	39,398
		<u>67,290</u>	<u>620,292</u>
		(52,715)	78,697
(Increase) / decrease in operating assets			
Lendings to financial institutions		(1,227,686)	(378,527)
Held for trading securities		34,996	(104,392)
Advances		(3,841,530)	(2,908,302)
Others assets (excluding advance taxation)		3,542	(256,106)
		<u>(5,030,678)</u>	<u>(3,647,327)</u>
Increase / (decrease) in operating liabilities			
Bills payable		72,224	(38,687)
Borrowings from financial institutions		571,810	(550,263)
Deposits		6,447,460	3,626,901
Other liabilities		265,760	51,686
		<u>7,357,254</u>	<u>3,089,637</u>
		2,273,861	(478,993)
Income tax (paid) / refunded		(47,750)	61,497
Gratuity benefits paid		(712)	-
Net cash flow from operating activities		<u>2,225,399</u>	<u>(417,496)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(804,205)	(1,480,403)
Net investments in held to maturity securities		(4,888)	547,932
Dividends received		122,175	30,174
Investments in operating fixed assets		(299,906)	(268,627)
Investment in subsidiary		-	(180,000)
Sale proceeds from disposal of fixed assets		22,061	5,021
Net cash flow from investing activities		<u>(964,763)</u>	<u>(1,345,903)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Payments against lease obligations		(6,199)	(16,001)
Issue of right shares		278,000	307,328
Net cash flow from financing activities		<u>271,801</u>	<u>291,327</u>
Increase / (decrease) in cash and cash equivalents		<u>1,532,437</u>	<u>(1,472,072)</u>
Cash and cash equivalents at beginning of the year	32	<u>1,564,188</u>	<u>3,036,260</u>
Cash and cash equivalents at end of the year	32	<u><u>3,096,625</u></u>	<u><u>1,564,188</u></u>

The annexed notes 1 to 43 and Annexure - I form an integral part of these financial statements.

President and Chief Executive

Director

Director

Director

KASB BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. STATUS AND NATURE OF BUSINESS

- 1.1 KASB Bank Limited was incorporated in Lahore, Pakistan on October 13, 1994 as a public limited company under the Companies Ordinance, 1984 and received banking license from the State Bank of Pakistan (SBP) on January 9, 1995. The registered office of the bank is situated at Business and Finance Center, I.I. Chundrigar Road, Karachi. The bank obtained Certificate of Commencement of Business on January 11, 1995 and is engaged in commercial banking and related services through 35 branches operating in different cities. Its shares are listed on the Karachi, Lahore and Islamabad stock exchanges.
- 1.2 In order to comply with the minimum capital requirements prescribed by the State Bank of Pakistan (SBP), the bank has decided to merge with International Housing Finance Limited (IHFL), a company in which Mr. Nasir Ali Shah Bukhari, sponsor / director of the bank holds 64.33 percent shares. The proposal for the merger with IHFL has been approved by the Board of Directors in their meeting held on October 27, 2006 and "In Principle Approval (IPA)" has been granted by SBP vide letter No. BPRD (LCGD-02)/625-79-1316/RK/2006/11977 dated December 22, 2006. Accordingly, SBP vide its letter No. BSD/SU-1/608/221/2007 dated January 26, 2007 has granted extension to the bank till March 31, 2007 to meet the minimum capital requirement of Rs. 3 billion applicable as at December 31, 2006. The remaining deficit, if any, after the proposed merger with IHFL will be met through an issue of right shares to the existing shareholders of the bank.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

- 3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.
- 3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39: "Financial Instruments: Recognition and Measurement" and International Accounting Standard (IAS) 40: "Investment Property" for banking companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.
- 3.3 **Standards, interpretations and amendments to published approved accounting standards that are not yet effective**

International Financial Reporting Standard (IFRS) 3 : ' Business Combinations' is applicable to the financial statements of the bank covering accounting periods beginning on or after January 1, 2007. Adoption of this standard would impact the accounting for business combinations and goodwill.

International Accounting Standard (IAS) 1 : ' Presentation of Financial Statements - Capital Disclosures' has been revised and the amendments are applicable to the financial statements of the bank covering accounting periods beginning on or after January 1, 2007. Adoption of these amendments would result in an impact on the extent of disclosures presented in the future financial statements of the bank.

3.4 **Standards, interpretations and amendments to published approved accounting standards that are not yet effective and not relevant for the bank's operations**

The following standards, amendments and interpretations to existing approved accounting standards are effective for the bank's accounting periods beginning on or after January 1, 2007 but these are currently not relevant for the bank's operations:

IFRS 2 - Share based payment	effective from accounting periods beginning on or after January 1, 2007
IFRS 5 - Non-current assets held for sale and discontinued operations	effective from accounting periods beginning on or after January 1, 2007
IFRS 6 - Exploration for and evaluation of mineral resources	effective from accounting periods beginning on or after January 1, 2007
IFRIC 8 - Scope of IFRS 2 - share based payments	effective for accounting periods beginning on or after May 1, 2006
IFRIC 9 - Reassessment of embedded derivatives	effective for accounting periods beginning on or after June 1, 2006
IFRIC 10 - Interim financial reporting and impairment	effective for accounting periods beginning on or after November 1, 2006
IFRIC 11 - IFRS 2 - Group and treasury share transactions	effective for accounting periods beginning on or after March 1, 2007
IFRIC 12 - Services concession arrangements	effective for accounting periods beginning on or after January 1, 2008

4. **BASIS OF MEASUREMENT**

4.1 **Accounting convention**

These financial statements have been prepared under the historical cost convention, except that certain investments and commitments in respect of foreign exchange contracts have been marked to market and are carried at fair value and certain staff retirement benefits are carried at present value.

4.2 **Critical accounting estimates and judgements**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

- i) classification of investments (notes 5.3 and 9)
- ii) provision against investments (notes 5.3 and 9) and advances (notes 5.4 and 10.4)
- iii) income taxes (notes 5.7, 12, and 30)
- iv) depreciation / amortisation of operating fixed assets (notes 5.6, 11.2 and 11.3)
- v) amortisation of goodwill (note 13.1)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.2 Lendings to / borrowings from financial institutions

(a) Sale of securities under repurchase obligations

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and repurchase price is recognised as mark-up expense on a time proportion basis.

(b) Purchase of securities under resale obligations

Securities purchased under an agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis.

5.3 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These investments are initially recognised at cost, being the fair value of the consideration given including the acquisition cost.

(a) Held for trading

These are securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the bank has the positive intent and ability to hold to maturity.

(c) Available for sale

These are investments, other than those in subsidiaries and associates, that do not fall under the held for trading or held to maturity categories.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the bank commits to purchase or sell the investment.

In accordance with the requirements of the State Bank of Pakistan (SBP), quoted securities other than those classified as held to maturity and investments in subsidiaries and associates are stated at market value. Investments classified as held to maturity are carried at amortised cost whereas investments in subsidiaries and associates are accounted for in accordance with the relevant International Accounting Standards as applicable in Pakistan.

The surplus / deficit arising on revaluation of quoted securities classified as 'available for sale' is kept in a separate account shown in the balance sheet below equity. The surplus / deficit arising on revaluation of quoted securities which are classified as 'held for trading' is taken to the profit and loss account.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Provision for diminution in the value of securities (except term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in the value of term finance certificates is made in accordance with the requirements of the Prudential Regulations issued by SBP.

Gain or loss on sale of investments is included in income currently.

5.4 **Advances**

Advances are stated net of specific and general provisions. The specific and general provisions for advances are made in accordance with the requirements of the Prudential Regulations and other directives issued by the State Bank of Pakistan and charged to the profit and loss account. Non-performing loans and advances in respect of which the bank does not expect any recoveries in future years are written off.

Leases where the bank transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease.

5.5 **Goodwill**

Goodwill represents the difference in the cost of an acquisition over the fair value of the bank's share of net identifiable assets of the acquired entity at the date of acquisition. It is amortised using the straight line basis over its estimated life, not exceeding 10 years. At each balance sheet date, goodwill is reviewed for indication of impairment or changes in estimated future benefits. If such indication exists, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable or not. A write-down is made if the carrying amount exceeds the recoverable amount.

5.6 **Operating fixed assets and depreciation**

Tangible - owned

Fixed assets, other than land which is not depreciated, are stated at cost less accumulated depreciation and accumulated impairment losses (if any).

Depreciation is calculated using the straight line method in accordance with the rates specified in note 11.2 to the financial statements after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on all fixed assets is charged from the date on which an asset is put to use till the date of its disposal.

Gains / losses on disposal of fixed assets, if any, are included in profit and loss account currently.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account as and when incurred.

Tangible - leased

Fixed assets held under finance lease are stated at cost less accumulated depreciation. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

Depreciation on fixed assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the bank.

Capital work-in-progress

Capital work-in-progress is stated at cost.

Intangibles

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised using the straight line method from the date an asset is available for use, whereby the cost of an intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the bank. The useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

Impairment

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

5.7 Taxation

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year or minimum tax at the rate of 0.5 percent of turnover, whichever is higher. The charge for current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the bank also records a deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the periods when the differences will reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The bank also recognises a deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12: 'Income Taxes'.

5.8 Staff retirement and other benefits

Defined contribution plan

The bank operates a contributory provident fund for all its permanent employees to which equal contributions are made by both the bank and the employees at the rate of 8.33 percent of basic salary.

Defined benefit scheme

The bank operates an approved unfunded gratuity scheme for all its permanent employees who complete the prescribed eligibility period of service. Provision is made annually to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense immediately.

5.9 Provisions

Provisions are recognised when the bank has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.10 Revenue Recognition

Advances and investments

Mark-up / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method, except that mark-up / interest on non-performing advances and investments is recognised on a receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Financing method is used in accounting for income from lease financing. Under this method, the unearned finance income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is taken to income over the term of the lease so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Unrealised finance income on lease is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognised as income when they are realised.

Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

Dividend income is recognised when the bank's right to receive the dividend is established.

Fees, brokerage and commission

Fees, brokerage and commission on letters of credit / guarantee and others is recognised on an accrual basis.

5.11 Foreign currencies

a) Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevailing at the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at rates determined with reference to their respective maturities.

b) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

5.12 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date.

5.13 Financial instruments

Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits, liabilities against assets subject to finance lease and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. All derivative financial instruments are carried as assets when fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the bank intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

5.14 Proposed dividend and transfer between reserves

During the year, the bank has changed its accounting policy relating to recognition of dividends and transfers between reserves (except transfers required by law) made subsequent to the balance sheet date. As per the new policy, dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are not recognised in the financial statements. Previously, such dividend declarations and transfers between reserves were being treated as adjusting events and were recorded as an appropriation in the financial statements of the bank. The new policy is in accordance with the requirements of IAS 10: 'Events after the Balance Sheet Date' and complies with the requirements set out in BSD Circular no. 4 dated February 17, 2006 issued by the State Bank of Pakistan. In addition, the new policy complies with the treatment specified by the Institute of Chartered Accountants of Pakistan in its Circular No. 06/2006 dated June 19, 2006. The change in accounting policy has not resulted in any change in profit / loss for the current and prior year.

5.15 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the bank operates. The financial statements are presented in Pakistani Rupees, which is the bank's functional and presentation currency.

5.16 Segment reporting

The bank has structured its key business areas in various segments in a manner that each segment becomes a distinguishable component of the bank that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The business segments within the bank have been categorised into the following classification of business segments in accordance with the requirements of the State Bank of Pakistan.

Business segments**Trading and sales**

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Retail banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service and consumer assets.

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, leasing, lending, guarantees, bills of exchange and deposits.

6. CASH AND BALANCES WITH TREASURY BANKS	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
In hand:			
- Local currency	6.1	365,345	343,962
- Foreign currency		67,383	29,621
With State Bank of Pakistan in:			
- Local currency current account	6.2	1,701,069	561,129
- Foreign currency current account	6.3	5,574	3,001
- Foreign currency deposit account	6.4	107,455	74,363
With National Bank of Pakistan in local currency current account			
		<u>58,256</u>	<u>70,448</u>
		<u>2,305,082</u>	<u>1,082,524</u>

6.1 This includes National Prize Bonds of Rs. 3.244 million (2005: Rs. 1.946 million).

6.2 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with SBP at a sum not less than such percentage of the bank's time and demand liabilities in Pakistan as may be prescribed by SBP.

6.3 This represents US Dollar Settlement Account maintained with SBP.

6.4 This represents foreign currency cash reserve maintained with SBP equivalent to at least 20 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme. The foreign currency cash reserve comprises of an amount equivalent to at least 5 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme, which is kept in a non-remunerative account. The balance reserve equivalent to at least 15 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme is maintained in a remunerative account on which the bank is entitled to earn a return which is declared by SBP on a monthly basis. During the year, this deposit was remunerated at rates ranging from 3.39 percent per annum to 4.39 percent per annum (2005: 1.4 percent per annum to 3.29 percent per annum).

7. BALANCES WITH OTHER BANKS	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
In Pakistan			
- On current account		331,040	17,449
Outside Pakistan			
- On current account		353,458	690,651
- On deposit account	7.1	115,233	108,978
		<u>468,691</u>	<u>799,629</u>
		<u>799,731</u>	<u>817,078</u>

7.1 Deposit accounts carry mark-up at rates ranging from 4 percent per annum to 4.5 percent per annum (2005: 3.75 percent per annum to 4.00 percent per annum).

8. LENDINGS TO FINANCIAL INSTITUTIONS	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
Clean placements	8.2	750,000	800,000
Repurchase agreement lendings (Reverse Repo)	8.3	1,555,232	277,546
		<u>2,305,232</u>	<u>1,077,546</u>

8.1 All lendings to financial institutions are in local currency.

8.2 Clean placements carry mark-up at rates ranging from 11.50 percent per annum to 12.80 percent per annum (2005: 10 percent per annum to 20 percent per annum) and are due to mature during the period from January 6, 2007 to April 4, 2007.

8.3 Securities held as collateral against lendings to financial institutions

These represent short-term lendings to financial institutions against investment securities. These lendings carry mark-up at rates ranging from 8.30 percent per annum to 9.00 percent per annum (2005: 8.2 percent per annum to 8.32 percent per annum) and are due to mature during the period from January 4, 2007 to February 23, 2007.

	2006			2005		
	Held by bank	Further given as collateral	Total	Held by bank	Further given as collateral	Total
	----- (Rupees in '000) -----					
Pakistan Investment Bonds	100,000	-	100,000	-	-	-
Market Treasury Bills	1,455,232	-	1,455,232	277,546	-	277,546
	<u>1,555,232</u>	<u>-</u>	<u>1,555,232</u>	<u>277,546</u>	<u>-</u>	<u>277,546</u>

9. INVESTMENTS

9.1 Investments by types

		2006			2005		
		Held by bank	Given as collateral	Total	Held by bank	Given as collateral	Total
		----- (Rupees in '000) -----					
Held for trading securities							
Ordinary shares of listed companies	9.3	68,629	-	68,629	104,392	-	104,392
Available for sale securities							
Pakistan Investment Bonds		180,048	-	180,048	121,273	62,677	183,950
Market Treasury Bills		1,323,116	-	1,323,116	1,380,203	299,466	1,679,669
Listed Term Finance Certificates	9.6	150,544	-	150,544	154,961	-	154,961
Unlisted Term Finance Certificates	9.7	210,572	-	210,572	246,871	-	246,871
Units of Mutual Funds	9.8	1,200,000	-	1,200,000	-	-	-
Ordinary shares of listed companies	9.3	283,814	-	283,814	278,438	-	278,438
Ordinary shares of unlisted companies	9.4 & 9.5	15,680	-	15,680	15,680	-	15,680
		<u>3,363,774</u>	<u>-</u>	<u>3,363,774</u>	<u>2,197,426</u>	<u>362,143</u>	<u>2,559,569</u>
Held to maturity securities							
Federal Investment Bonds		116,751	-	116,751	127,048	-	127,048
Pakistan Investment Bonds		732,121	-	732,121	616,984	135,271	752,255
		<u>848,872</u>	<u>-</u>	<u>848,872</u>	<u>744,032</u>	<u>135,271</u>	<u>879,303</u>
Associates							
KASB Funds Limited		30,000	-	30,000	-	-	-
Subsidiaries							
KASB Securities Limited		300,000	-	300,000	300,000	-	300,000
KASB Technology Services Limited		4,771	-	4,771	4,771	-	4,771
KASB Funds Limited		-	-	-	30,000	-	30,000
		<u>304,771</u>	<u>-</u>	<u>304,771</u>	<u>334,771</u>	<u>-</u>	<u>334,771</u>
Investments at cost							
		<u>4,616,046</u>	<u>-</u>	<u>4,616,046</u>	<u>3,380,621</u>	<u>497,414</u>	<u>3,878,035</u>
Less: Provision for diminution in the value of investments	9.9	(10,185)	-	(10,185)	(37,047)	-	(37,047)
Investments (Net of Provisions)							
		<u>4,605,861</u>	<u>-</u>	<u>4,605,861</u>	<u>3,343,574</u>	<u>497,414</u>	<u>3,840,988</u>
Surplus / (deficit) on revaluation of held for trading securities	9.11	130,241	-	130,241	(767)	-	(767)
Surplus / (deficit) on revaluation of available for sale securities	21	(41,790)	-	(41,790)	(9,738)	(8,540)	(18,278)
Total investments							
		<u>4,694,312</u>	<u>-</u>	<u>4,694,312</u>	<u>3,333,069</u>	<u>488,874</u>	<u>3,821,943</u>

9.2 Investments by segments	Note	2006	2005
(Rupees in '000)			
Federal Government Securities	9.12		
- Market Treasury Bills		1,323,116	1,679,669
- Pakistan Investment Bonds		912,169	936,205
- Federal Investment Bonds		116,751	127,048
		2,352,036	2,742,922
Fully paid-up ordinary shares			
- Listed companies	9.3	352,443	382,830
- Unlisted companies	9.4 & 9.5	15,680	15,680
		368,123	398,510
Term Finance Certificates			
- Listed	9.6	150,544	154,961
- Unlisted	9.7	210,572	246,871
		361,116	401,832
Units of Mutual Funds	9.8	1,200,000	-
Associates			
- KASB Funds Limited		30,000	-
Subsidiaries			
- KASB Securities Limited		300,000	300,000
- KASB Technology Services Limited		4,771	4,771
- KASB Funds Limited		-	30,000
		304,771	334,771
Investments at cost		4,616,046	3,878,035
Less: Provision for diminution in the value of investments	9.9	(10,185)	(37,047)
Investments (Net of Provisions)		4,605,861	3,840,988
Surplus / (deficit) on revaluation of held for trading securities	9.11	130,241	(767)
Surplus / (deficit) on revaluation of available for sale securities	21	(41,790)	(18,278)
Total investments		4,694,312	3,821,943

9.3 Particulars of investments in ordinary shares of listed companies

Company Name	Number of shares held	Paid up value per share	Total paid up value	Cost	Market Value
		(Rupees)	----- (Rupees in '000) -----		
Available for sale					
- Hub Power Company Limited *	3,475,000	10	34,750	122,840	93,825
- Hum TV Network*	2,930,200	10	29,302	29,302	26,372
- Worldcom Telecom Limited	6,875,241	10	68,752	63,326	73,909
- Karachi Electric Supply Corporation	3,000,000	10	30,000	31,856	19,500
- Pakistan Oil Fields Limited	100,000	10	1,000	36,490	34,975
				283,814	248,581
Held for trading					
- Pak Suzuki Motors	473,500	10	4,735	68,629	198,870
				352,443	447,451

* The bank's investment in 3,475,000 ordinary shares of Hub Power Company Limited and 2,930,200 ordinary shares of Hum TV Network have been classified as strategic investments under the guidelines provided in Regulation 'R-6' of the Prudential Regulations and BPD Circular Letter No. 16 dated August 1, 2006, issued by the State Bank of Pakistan.

9.4 Particulars of investments in ordinary shares of unlisted companies

Company name	Number of shares held	Paid up value per share	Cost	Break up value of investment	Based on investee's financial statements	Name of Chief Executive
		(Rupees)	---- (Rupees in '000) ----			
Shareholding upto 10 percent						
- Khushhali Bank Limited	10	1,000,000	10,000	11,029	December 31, 2005 (audited)	Mr. M Ghalib Nishtar
- Pakistan Export Finance Guarantee Agency Limited	568,044	10	5,680	3,562	June 30, 2006 (un-audited)	Mr. S.M Zaeem
			15,680			

- 9.5 This includes the bank's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs.10 million (2005: Rs. 10 million). Pursuant to section 10 of the Khushhali Bank Ordinance, 2000, strategic investors (including the bank) cannot sell or transfer their investment in Khushhali Bank Limited before a period of 5 years that has expired on October 10, 2005, from the date of subscription. Thereafter, such sale / transfer would be subject to prior approval of the State Bank of Pakistan. In addition, profit, if any, and other income of Khushhali Bank Limited, shall not be used to pay any dividend to the members, and shall be utilised to promote the objectives of Khushhali Bank Limited.

9.6 **Particulars of investments in listed Term Finance Certificates**

Company name	Number of certificates held	Face value	Unredeemed	Cost	Market value	Name of Chief Executive
		per certificate	face value per certificate			
		------(Rupees)-----		------(Rupees in '000)-----		
- World Call Communication	1,424	5,000	1,428	2,033	2,338	Mr. Salman Taseer
- Security Leasing Corporation Limited	5,000	5,000	3,750	18,750	20,056	Mr. M. Khalid Ali
- Azgard Nine Limited	5,000	5,000	3,750	18,750	18,750	Mr. Ahmed Humayun Shaikh
- United Bank Limited	16,232	5,000	5,000	81,153	81,153	Mr. Atif R. Bukhari
- Chanda Oil and Gas Co. Ltd.	4,000	5,000	4,340	17,360	17,360	Mr. Liaqat Ali Naz
- Al-Noor Sugar Mills	5,000	5,000	2,500	12,498	12,498	Mr. Ismail H. Zakaria
				<u>150,544</u>	<u>152,155</u>	

9.7 **Particulars of investments in unlisted Term Finance Certificates**

Company name	Number of certificates held	Face value	Unredeemed	Cost	Name of Chief Executive
		per certificate	face value per certificate		
		------(Rupees)-----		(Rupees in '000)	
- New Khan Transport	28,000	5,000	4,039	113,077	Mr. Humair Hayat Khan Rokhri
- Gharibwal Cement	10,000	5,000	5,000	50,000	Mr. M. Tauif Peracha
- Tandilianwala Sugar Mills	5,000	5,000	4,500	22,500	Mr. Haroon Akhtar Khan
- Mobilink	5,000	5,000	4,999	24,995	Mr. Zouhair Khaliq
				<u>210,572</u>	

9.8 **Particulars of investments in units of Mutual Funds**

Mutual Fund	Number of units held	Face value per unit	Cost	Market Value
- NAFA Cash Fund	38,019,200	10	400,000	400,091
- KASB Liquid Fund	2,534,962	100	250,000	265,563
- Askari Income Fund	3,297,221	100	350,000	350,363
- AMZ Plus Income Fund	941,534	100	100,000	100,096
- Dawood Money Market Fund	949,898	100	100,000	100,086
			<u>1,200,000</u>	<u>1,216,199</u>
			2006	2005
			(Rupees in '000)	

9.9 **Particulars of provision for diminution in the value of investments**

Opening balance at January 1		37,047	891
Charge for the year		310	36,156
Reversals during the year		(27,172)	-
Net (reversal) / charge for the year		(26,862)	36,156
Closing balance at December 31		<u>10,185</u>	<u>37,047</u>

9.9.1 Particulars of provision for diminution in the value of investments - by type and segment	2006 (Rupees in '000)	2005
Available for sale		
Term Finance Certificates - unlisted	3,296	30,468
Fully paid-up ordinary shares - unlisted	2,118	1,808
	5,414	32,276
Subsidiaries		
KASB Technology Services Limited	4,771	4,771
	<u>10,185</u>	<u>37,047</u>

9.10 Quality of available for sale securities	2006		2005	
	Amount	Rating	Amount	Rating
Pakistan Investment Bonds	156,315	Baa2	161,985	Baa2
Market Treasury Bills	1,322,482	Baa2	1,680,125	Baa2
Term Finance Certificates - listed				
- World Call Communication	2,338	AA-	4,676	AA-
- Securitel SPV Limited	-	-	694	A
- First Oil & Gas Securitisation Company Limited	-	-	18,478	A
- Security Leasing Corporation Limited	20,056	Unrated	-	-
- Azgard Nine Limited	18,750	A+	-	-
- United Bank Limited	81,153	AA-	81,157	AA-
- Sui Southern Gas Company Limited	-	-	9	AA
- Chanda Oil and Gas Company Limited	17,360	A	19,120	A
- Al-Noor Sugar Mills	12,498	A-	24,990	A-
	152,155		149,124	
Term Finance Certificates - unlisted				
- New Khan Transport	113,077	Unrated	121,871	Unrated
- Tandilianwala Sugar Mills	22,500	Unrated	25,000	Unrated
- Gharibwal Cement	50,000	A-	-	-
- Security Leasing Corporation Limited	-	-	25,000	Unrated
- Azgard Nine Limited	-	-	25,000	A+
- Mobilink	24,995	AA-	50,000	AA-
	210,572		246,871	
Units of Mutual Funds				
- NAFA Cash Fund	400,091	A(F)	-	-
- KASB Liquid Fund	265,563	Unrated	-	-
- Askari Income Fund	350,363	Unrated	-	-
- AMZ Plus Income Fund	100,096	A(F)	-	-
- Dawood Money Market Fund	100,086	5 star	-	-
	1,216,199		-	
Ordinary shares of listed companies	248,581	Unrated	287,506	Unrated
Ordinary shares of unlisted companies	15,680	Unrated	15,680	Unrated
Total	<u>3,321,984</u>		<u>2,541,291</u>	

9.11 Unrealised gain / (loss) on revaluation of investments classified as held for trading	2006 (Rupees in '000)	2005
Ordinary shares / units of listed companies / mutual funds		
Pak Suzuki Motors	130,241	-
DG Khan Cement	-	(27)
Dewan Farooq Motors Limited	-	(43)
World Call Telecom Limited	-	(822)
PICIC Energy Fund Limited	-	125
	<u>130,241</u>	<u>(767)</u>

9.12 This includes securities having a face value of Rs.Nil (2005: Rs.Nil million) pledged with the State Bank of Pakistan as security to facilitate T.T discounting facility to branches of the bank.

9.13

Federal Investment Bonds and Pakistan Investment Bonds are eligible for discounting with the State Bank of Pakistan.

9.14 Significant particulars relating to government securities and term finance certificates are as follows:

Particulars of investment	Maturity	Principal payments	Coupon rate / Discount rate	Coupon payments
Market Treasury Bills	January 2007 to December 2007	On maturity	8.06% to 8.24%	Not applicable
Federal Investment Bonds	December 2007 to March 2008	On maturity	15%	Semi-annually
Pakistan Investment Bonds	October 2011 to October 2013	On maturity	8% to 13%	Semi-annually
Term Finance Certificates	June 2007 to May 2013	Various	6.5% to 14.5%	Various

9.15 Investments in subsidiaries

Details of the bank's subsidiary companies are as follows:

Name	Percentage of shareholding	Country of incorporation	Year of incorporation
KASB Securities Limited	100%	Pakistan	2000
KASB Technology Services Limited	100%	Pakistan	1995

9.16 During the year KASB Funds Limited increased its share capital by Rs 70,000,000 through issue of 7,000,000 ordinary shares of Rs. 10 each, to new shareholders, due to which the share holding of KASB Bank Limited in KASB Funds Limited decreased from 100 percent to 30 percent. Therefore, the status of KASB Funds Limited has changed from a subsidiary of the bank to an associate of the bank effective from July 29, 2006.

	Note	2006 (Rupees in '000)	2005
10. ADVANCES			
Loans, cash credits, running finances, etc. - in Pakistan		12,170,125	8,609,909
Net investment in finance lease - in Pakistan	10.2	1,643,279	1,740,662
Bills discounted and purchased (excluding government treasury bills)			
- Payable in Pakistan		168,093	82,808
- Payable outside Pakistan		210,845	172,456
		378,938	255,264
		14,192,342	10,605,835
Financing in respect of Continuous Funding System (CFS)		1,015,437	791,835
		15,207,779	11,397,670
Provision for advances - specific	10.4	(693,484)	(654,463)
- general	10.4	(1,577)	(3,870)
		(695,061)	(658,333)
		14,512,718	10,739,337
10.1 Particulars of advances (Gross)			
10.1.1 In local currency		14,996,934	11,225,214
In foreign currencies		210,845	172,456
		15,207,779	11,397,670
10.1.2 Short-term		12,117,662	9,123,024
Long-term		3,090,117	2,274,646
		15,207,779	11,397,670

10.2 Net investment in finance lease

	2006				2005			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
----- (Rupees in '000) -----								
Lease rentals receivable	730,119	888,134	32,518	1,650,771	800,810	882,159	-	1,682,969
Residual value	47,607	159,400	30,616	237,623	45,239	162,752	-	207,991
Minimum lease payments	777,726	1,047,534	63,134	1,888,394	846,049	1,044,911	-	1,890,960
Finance charge for future periods	(103,358)	(140,812)	(945)	(245,115)	(82,375)	(67,923)	-	(150,298)
Present value of minimum lease payments	674,368	906,722	62,189	1,643,279	763,674	976,988	-	1,740,662

10.3 Advances include Rs.1,016.710 million (2005: Rs. 1,070.433 million) which have been placed under non-performing status as detailed below:

Category of classification	2006			Provision required	Provision held
	Domestic	Overseas	Total		
----- (Rupees in '000) -----					
Substandard	36,641	-	36,641	9,161	9,161
Doubtful	149,633	-	149,633	56,959	56,959
Loss	830,436	-	830,436	627,364	627,364
	1,016,710	-	1,016,710	693,484	693,484

Category of classification	2005			Provision required	Provision held
	Domestic	Overseas	Total		
----- (Rupees in '000) -----					
Substandard	96,320	-	96,320	23,980	23,980
Doubtful	403,681	-	403,681	154,339	154,339
Loss	570,432	-	570,432	476,144	476,144
	1,070,433	-	1,070,433	654,463	654,463

10.4 Particulars of provision against non-performing advances

Note	'2006			'2005		
	Specific	General	Total	Specific	General	Total
----- (Rupees in '000) -----						
Opening balance at January 1	654,463	3,870	658,333	194,452	3,922	198,374
Charge for the year	408,110	-	408,110	486,613	-	486,613
Reversals	(337,668)	(2,293)	(339,961)	(22,837)	(52)	(22,889)
Net charge / (reversal)	70,442	(2,293)	68,149	463,776	(52)	463,724
Amounts written off	(31,421)	-	(31,421)	(3,765)	-	(3,765)
Closing balance at December 31	693,484	1,577	695,061	654,463	3,870	658,333

10.4.1 General provision against consumer loans represents provision maintained at an amount equal to 1.5 percent of the fully secured regular portfolio of consumer loans and 5 percent of the unsecured regular portfolio of consumer loan as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

10.4.2 Particulars of provisions against non-performing advances	2006		2005	
	Specific	General	Specific	General
In local currency	693,484	1,577	654,463	3,870
In foreign currencies	-	-	-	-
	<u>693,484</u>	<u>1,577</u>	<u>654,463</u>	<u>3,870</u>

10.5 Particulars of write offs	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
10.5.1 Against provisions	10.4	31,421	3,765
Directly charged to the profit and loss account		-	-
		<u>31,421</u>	<u>3,765</u>
10.5.2 Write offs of Rs. 500,000 and above	10.6	29,371	3,765
Write offs of below Rs. 500,000		2,050	-
		<u>31,421</u>	<u>3,765</u>

10.6 Details of loan write offs of Rs 500,000 and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2006 is given at Annexure - I to these financial statements. However, the write off of loans does not affect the bank's right to recover the outstanding loans from these customers:

10.7 Particulars of loans and advances to executives, directors, associated companies etc.	2006 (Rupees in '000)	2005 (Rupees in '000)
Debts due by directors, executives or officers of the bank or any of them either severally or jointly with any other persons*		
Balance at beginning of the year	112,852	77,563
Loans granted during the year	96,980	58,030
Repayments during the year	33,817	22,741
Balance at end of the year	<u>176,015</u>	<u>112,852</u>
Debts due by companies or firms in which the directors of the bank are interested as directors, partners or in the case of private companies as members		
Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments during the year	-	-
Balance at end of the year	-	-
Debts due by subsidiary companies, controlled firms, managed modarabas and other related parties		
Balance at beginning of the year	46,397	47,183*
Loans granted during the year	4,896	2,050
Repayments during the year	23,073	2,836*
Balance at end of the year	<u>28,220</u>	<u>46,397</u>
	<u>204,235</u>	<u>159,249</u>

* These include loans given by the bank to its employees as per the terms of their employment.

11. OPERATING FIXED ASSETS	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
Capital work-in-progress	11.1	83,758	72,714
Tangible fixed assets	11.2	571,483	372,244
Intangibles	11.3	17,823	26,986
		<u>673,064</u>	<u>471,944</u>
11.1 Capital work-in-progress			
Civil works		26,024	64,314
Advances to suppliers and contractors		57,734	8,400
		<u>83,758</u>	<u>72,714</u>

11.2 Tangible fixed assets

	2006									
	COST				DEPRECIATION				Book value at December 31, 2006	Rate of Depreciation (%)
	As at January 1, 2006	Additions/ Transfers*	Deletions	As at December 31, 2006	As at January 1, 2006	Charge for the year	Deletions / transfers*	As at December 31, 2006		
	(Rupees in 000)									
Bank premises	195,193	147,963	(14,000)	329,156	33,126	11,370	(1,145)	43,351	285,805	5
Furniture & fixtures	149,063	47,380	(257)	196,186	57,899	16,855	(248)	74,506	121,680	10
Motor vehicles	62,328	21,444	(8,975)	74,797	13,674	10,622	(4,848)	19,448	55,349	20
Electrical, office and computer equipment	145,189	71,834 23,493 *	(2,027)	238,489	80,104	32,058	(1,883) 23,493 *	133,772	104,717	20-33.33
	551,773	288,621 23,493 *	(25,259)	838,628	184,803	70,905	(8,124) 23,493 *	271,077	567,551	
Assets held under finance lease										
Motor vehicles	9,979	-	(1,805)	8,174	5,062	984	(1,627)	4,419	3,755	20
Electrical, office and computer equipment	33,111	- (23,493) *	-	9,618	32,754	180	- (23,493) *	9,441	177	20-33.33
	43,090	- (23,493) *	(1,805)	17,792	37,816	1,164	(1,627) (23,493) *	13,860	3,932	
Total	594,863	288,621 23,493 *	(27,064)	856,420	222,619	72,069	(9,751)	284,937	571,483	
	2005									
	COST				DEPRECIATION				Book value at December 31, 2005	Rate of Depreciation (%)
	As at January 1, 2005	Additions/ Transfers*	Deletions	As at December 31, 2005	As at January 1, 2005	Charge for the year	Deletions/ Transfers*	As at December 31, 2005		
	(Rupees in 000)									
Bank Premises	117,773	77,420	-	195,193	26,067	7,059	-	33,126	162,067	5
Furniture and Fixtures	99,503	49,910	(350)	149,063	46,837	11,346	(284)	57,899	91,164	10
Motor Vehicles	30,276	32,414 6,173 *	(6,535)	62,328	12,134	4,197	(5,901) 3,244 *	13,674	48,654	20
Electrical, office and computer equipment	114,501	31,905 2,272 *	(3,489)	145,189	61,217	20,032	(3,342) 2,197 *	80,104	65,085	20-33.33
	362,053	191,649 8,445 *	(10,374)	551,773	146,255	42,634	(9,527) 5,441 *	184,803	366,970	
Assets held under finance lease										
Motor vehicles	12,552	3,600 (6,173) *	-	9,979	7,407	899	- (3,244) *	5,062	4,917	20
Electrical, office and computer equipment	35,383	- (2,272) *	-	33,111	23,654	11,297	- (2,197) *	32,754	357	20-33.33
	47,935	3,600 (8,445) *	-	43,090	31,061	12,196	- (5,441) *	37,816	5,274	
Total	409,988	195,249 (10,374)	(10,374)	594,863	177,316	54,830	(9,527)	222,619	372,244	

11.3 Intangibles

	COST				AMORTISATION				Book value at December 31, 2006	Rate of Amortisation (%)
	As at January 1, 2006	Additions	Deletions / Transfers *	As at December 31, 2006	As at January 1, 2006	Amortisation	Deletions / Transfers*	As at December 31, 2006		
	(Rupees in 000)									
Computer software	35,740	240	-	35,980	8,754	9,403	-	18,157	17,823	20-33.33
2005	10,241	25,499	-	35,740	7,296	1,458	-	8,754	26,986	20-33.33

	2006 (Rupees in '000)	2005
11.4 Carrying amount of temporarily idle properties	Nil	Nil
11.5 The cost of fully depreciated assets that are still in use is :		
Furniture and fixtures	20,218	505
Electrical, office and computer equipment	81,581	49,475
Motor vehicles	1,333	4,209
Computer software	8,242	5,819
11.6 The carrying amount of tangible fixed assets that have retired from active use and are held for disposal	Nil	Nil
11.7 Disposals of operating fixed assets during the year		

The details of disposals of operating fixed assets whose original cost or book value exceeds one million rupees or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser
	------(Rupees ' 000)-----					
Bank premises						
Items having book value of more than Rs 250,000 or cost of more than Rs 1,000,000	14,000	1,145	12,855	16,000	Negotiation	KASB Securities Limited (subsidiary)
	14,000	1,145	12,855	16,000		
Furniture and fixtures						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	198	195	3	4	Negotiation	Various
	59	53	6	-	Write off	
	257	248	9	4		
Electrical, office and computer equipment						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	1,814	1,769	45	126	Negotiation	Various
	213	114	99	-	Write off	
	2,027	1,883	144	126		
Motor vehicles						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	3,916	3,724	192	2,182	Auction	Various
Items having book value of more than Rs 250,000 and cost of less than Rs 1,000,000						
KIA Spectra	759	302	457	162	Auction	Rafat Ali (third party)
Toyota Corolla	849	277	572	662	Negotiation	KASB Securities Limited (subsidiary)
Suzuki Cultus	560	94	466	525	Negotiation	KASB Securities Limited (subsidiary)
Honda City	831	129	702	789	Negotiation	KASB Securities Limited (subsidiary)
Honda City	830	99	731	819	Negotiation	KASB Securities Limited (subsidiary)
KIA Spectra	759	465	294	122	Auction	Syed Sadiq Ali (third party)
KIA Spectra	759	455	304	210	Auction	Manzoor Hussain (third party)
KIA Spectra	759	465	294	233	Auction	Saeed-ur-Rehman (third party)
KIA Spectra	759	465	294	227	Auction	Saeed-ur-Rehman (third party)
	10,781	6,475	4,306	5,931		
2006	27,065	9,751	17,314	22,061		
2005	10,374	9,527	847	5,021		

12. DEFERRED TAX ASSETS - NET	2006 (Rupees in '000)	2005
Deferred debits arising due to:		
Deficit on revaluation of available for sale securities	8,528	7,528
Provision for diminution in the value of investments	3,565	12,966
Provision against non-performing loans and advances and mark-up in suspense	18,914	62,490
Provision for compensated absences	2,905	3,661
Provision against other assets	1,647	1,516
Liabilities against assets subject to finance lease	-	1,477
Minimum tax	19,260	12,762
Unused tax losses (including unabsorbed depreciation)	729,286	513,898
	<u>784,105</u>	<u>616,298</u>
Deferred credits arising due to:		
Reversal of accelerated tax depreciation	(69,053)	(33,230)
Liabilities against assets subject to finance lease	(55)	-
Net investment in finance leases	(226,376)	(199,867)
	<u>(295,484)</u>	<u>(233,097)</u>
	<u>488,621</u>	<u>383,201</u>

- 12.1 The deferred tax asset recognised in these financial statements represents the management's best estimate of the probable benefit which is expected to be realised in future years in the form of reduced tax liability as the bank would be able to set off the profits earned in these years against losses carried forward from current and prior years.

13. OTHER ASSETS	Note	2006 (Rupees in '000)	2005
Income / mark-up accrued in local currency		387,765	261,163
Income / mark-up accrued in foreign currencies		-	-
Advances, deposits, advance rent and other prepayments		78,899	75,260
Taxation (payments less provisions)		50,301	22,419
Stationery and stamps in hand		8,975	8,698
Branch adjustment account		-	236
Goodwill	13.1	153,939	178,343
Unrealised gain on forward foreign exchange contracts		3,170	7,289
Receivable from brokers against sale of listed equity securities		23,358	123,551
Dividend receivable		50,625	-
Others		7,650	36,787
		<u>764,682</u>	<u>713,746</u>
Provision held against other assets	13.2	(4,707)	(4,332)
Other assets - net of provision		<u>759,975</u>	<u>709,414</u>
13.1 Goodwill			
Goodwill recognised on acquisition of investment segment of KASB & Co.		256,564	256,564
Goodwill recognised on amalgamation of KASB Leasing Limited		(4,174)	(4,174)
		<u>252,390</u>	<u>252,390</u>
Amortisation to date		(98,451)	(74,047)
		<u>153,939</u>	<u>178,343</u>
13.2 Provision against other assets			
Opening balance at January 1		4,332	4,332
Charge for the year		375	-
Reversals during the year		-	-
Amounts written off		-	-
Closing balance at December 31		<u>4,707</u>	<u>4,332</u>
14. CONTINGENT ASSETS			

There were no contingent assets of the bank as at December 31, 2006.

15. **BILLS PAYABLE**

These represent bills payable in Pakistan.

16. BORROWINGS	Note	2006	2005
		(Rupees in '000)	
In Pakistan		2,167,844	1,596,034
Outside Pakistan		8,188	335,414
		<u>2,176,032</u>	<u>1,931,448</u>
16.1 Particulars of borrowings			
In local currency		2,167,844	1,596,034
In foreign currencies		8,188	335,414
		<u>2,176,032</u>	<u>1,931,448</u>
16.2 Details of borrowings secured / unsecured			
Secured			
Borrowings from the State Bank of Pakistan under export refinance scheme	16.2.1	1,869,541	1,151,850
Borrowings from the State Bank of Pakistan under Long Term Finance (LTF)	16.2.2	298,303	-
Repurchase agreement borrowings		-	444,184
		2,167,844	1,596,034
Unsecured			
Overdrawn nostro accounts		8,188	335,414
		<u>2,176,032</u>	<u>1,931,448</u>

16.2.1 The bank has entered into an agreement with the State Bank of Pakistan (SBP) for extending export finance to its customers. As per the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of the finances by directly debiting the current account maintained by the bank with SBP. Borrowing from SBP under the export refinance scheme is secured by the bank's cash and security balances held by SBP. These borrowings carry mark-up at the rate of 6.5 percent per annum to 7.5 percent per annum (2005 : 3.5 percent per annum to 7.5 percent per annum) payable on a quarterly basis.

16.2.2 These borrowings have been made from SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export oriented units.

17. DEPOSITS AND OTHER ACCOUNTS	2006	2005
	(Rupees in '000)	
Customers		
Remunerative		
Fixed deposits	7,408,694	4,241,215
Savings deposits	7,076,098	6,305,188
	<u>14,484,792</u>	<u>10,546,403</u>
Non-remunerative		
Current accounts	3,175,928	2,803,992
Margin deposits	447,240	279,580
	<u>3,623,168</u>	<u>3,083,572</u>
	18,107,960	13,629,975
Financial Institutions		
Remunerative deposits		
Savings deposits	565,270	366,478
Term deposits	2,600,000	800,000
Non-remunerative deposits		
Current accounts	2,340	31,657
	<u>3,167,610</u>	<u>1,198,135</u>
	<u>21,275,570</u>	<u>14,828,110</u>

	2006 (Rupees in '000)	2005 (Rupees in '000)
17.1 Particulars of deposits and other accounts		
In local currency	20,725,702	14,495,034
In foreign currencies	549,868	333,076
	<u>21,275,570</u>	<u>14,828,110</u>

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2006			2005		
	Minimum lease payments	Finance charges for future periods	Principal outstanding	Minimum lease payments	Finance charges for future periods	Principal outstanding
----- (Rupees in '000) -----						
Not later than one year	2,583	235	2,348	7,423	465	6,958
Later than one year and not later than five years	1,519	92	1,427	2,816	281	2,535
	<u>4,102</u>	<u>327</u>	<u>3,775</u>	<u>10,239</u>	<u>746</u>	<u>9,493</u>

The bank has entered into various lease agreements with leasing companies and modarabas for the lease of equipment and vehicles. Lease rentals include financial charges ranging between 9.14 percent per annum to 16.5 percent per annum (2005: 9.14 percent per annum to 16.5 percent per annum) which has been used as a discounting factor. The lease rentals are payable in monthly installments by January 2009. The bank has the option to purchase the assets upon completion of the lease period and has the intention to exercise the option.

	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
19. OTHER LIABILITIES			
Mark-up / return / interest payable in local currency		214,296	92,972
Mark-up / return / interest payable in foreign currencies		285	-
Advance against leases		18,572	-
Accrued expenses		37,584	26,534
Branch adjustment account		53,526	
Security deposits against leases	19.1	237,688	208,049
Provision for compensated absences	19.2	8,301	10,461
Provision for gratuity	34.4	20,763	-
Payable to brokers against purchase of shares		6,171	107,274
Payable to brokers against purchase of listed equity securities		122,318	-
Others		<u>35,387</u>	<u>25,238</u>
		<u>754,891</u>	<u>470,528</u>

19.1 These represent interest free security deposits received from lessees against lease contracts and are adjustable against residual value of leased assets at the expiry of the respective lease terms.

19.2 This represents provision for compensated absences made in respect of the liability of the bank towards leaves accumulated by its employees upto December 31, 2005. The provision has been determined on the basis of basic salaries of employees for the month of December 2005 pursuant to the decision of the management to freeze this benefit as at December 31, 2005.

20. **SHARE CAPITAL****Authorised**

2006 (Number of shares)		2005	2006 (Rupees in '000)	
<u>400,000,000</u>	<u>400,000,000</u>		<u>4,000,000</u>	<u>4,000,000</u>
		Ordinary shares of Rs. 10 each		
Issued, subscribed and paid up				
149,923,856	91,391,022	Ordinary shares of Rs. 10 each fully paid in cash	1,499,238	913,910
11,600,000	11,600,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	116,000	116,000
89,001,900	89,001,900	Ordinary shares of Rs. 10 each issued on amalgamation of investment segment of KASB & Co.	890,019	890,019
8,834,942	8,834,942	Ordinary shares of Rs. 10 each issued on amalgamation of KASB Leasing	88,349	88,349
(30,089,900)	(30,089,900)	Ordinary shares of Rs. 10 each of the bank cancelled previously held by KASB & Co.	(300,899)	(300,899)
-	30,732,834	Right shares of Rs 10 each subscribed but not yet issued	-	307,328
<u>229,270,798</u>	<u>201,470,798</u>		<u>2,292,707</u>	<u>2,014,707</u>

20.1 The movement in the issued, subscribed and paid-up capital during the year is as follows:

	Number of shares	Amount (Rupees in '000)
Opening balance at January 1	201,470,798	2,014,707
Right shares subscribed in the prior year but issued in the current year	(30,732,834)	(307,328)
Right shares issued during the year	58,532,834 *	585,328
Closing balance at December 31	<u>229,270,798</u>	<u>2,292,707</u>

* include right shares subscribed in the prior year but issued during the current year.

20.2 Related parties of the bank, namely Mr. Nasir Ali Shah Bukhari, Mrs. Ambreen Bukhari, Master Mahmood Ali Shah Bukhari, Mr. H. U. Beg, Mr. Sohail Wajahat H. Siddiqui, Mr. Tariq M. Rangoonwala, Mr.N.K. Shahani, Ms. Mubashira Bukhari, Mr. Irtiza Hussain and Mr. Munir Kamal respectively hold 56,415,951 (2005: 23,860,134), 9,452,173 (2005: 8,012,173), 9,440,000 (2005: 8,000,000), 707,623 (2005: 599,681), 778 (2005: 660), 3,327 (2005: 2,820), 3,000 (2005: Nil), 9,440,000 (2005: 8,000,000), 500 (2005: Nil), 500 (2005: Nil) shares of Rs 10/- each of the bank as at December 31, 2006.

20.3 The State Bank of Pakistan required all commercial banks to raise their paid-up capital (net of losses) to minimum limits as prescribed in BSD Circular No. 6 dated October 28, 2005. As per the requirements, the minimum paid-up capital (net of losses) requirement for locally incorporated banks has been raised to Rs 6 billion (net of losses), to be achieved in a phased manner by December 31, 2009. The minimum paid-up capital requirement (net of losses) to be achieved by December 31, 2006 is Rs 3 billion. The paid-up capital of the bank as at December 31, 2006 amounts to Rs 2,293 million and the bank has accumulated losses of Rs 163.156 million as at that date.

As mentioned in note 1.2 to the financial statements, in order to comply with the minimum capital requirements prescribed by the State Bank of Pakistan (SBP), the bank has decided to merge with International Housing Finance Limited (IHFL), a company in which Mr. Nasir Ali Shah Bukhari, sponsor / director of the bank holds 64.33 percent shares. The proposal for the merger with IHFL has been approved by the Board of Directors in their meeting held on October 27, 2006 and "In Principle Approval (IPA)" has been granted by SBP vide letter No. BPRD (LCGD-02)/625-79-1316/RK/2006/11977 dated December 22, 2006. Accordingly, SBP vide its letter No. BSD/SU-1/608/221/2007 dated January 26, 2007 has granted extension to the bank till March 31, 2007 to meet the minimum capital requirement of Rs 3 billion applicable as at December 31, 2006. The remaining deficit, if any, after the proposed merger with IHFL will be met through an issue of right shares to the existing shareholders of the bank.

	2006	2005
	(Rupees in '000)	
21. DEFICIT ON REVALUATION OF ASSETS - NET OF TAX		
(Deficit) / surplus on revaluation of available for sale securities:		
Federal Government securities	(24,367)	(21,509)
Term Finance Certificates - listed	1,611	(5,837)
Units of Mutual Funds	16,199	-
Ordinary shares - listed	(35,233)	9,068
	(41,790)	(18,278)
Related deferred tax asset	8,528	7,528
	<u>(33,262)</u>	<u>(10,750)</u>
22. CONTINGENCIES AND COMMITMENTS		
22.1 Direct credit substitutes		
Acceptances	2,116,691	1,114,890
22.2 Transaction-related contingent liabilities		
Guarantees issued favouring:		
- Government	26,967	36,367
- Others	3,006,817	1,806,035
	3,033,784	1,842,402
22.3 Trade-related contingent liabilities		
Letters of credit	2,822,946	2,236,350
22.4 Taxation matters have been disclosed in note 30.2 to these financial statements.		
22.5 Commitments in respect of forward exchange contracts		
Purchase		
From the State Bank of Pakistan	8,585	9,005
From other banks	30,440	1,170,709
From other customers	24,822	26,247
	<u>63,847</u>	<u>1,205,961</u>
Sale		
To banks	291,285	1,446,224
To customers	12,620	3,192
	<u>303,905</u>	<u>1,449,416</u>
	367,752	2,655,377
22.6 Commitments for the acquisition of operating fixed assets	28,639	1,960
23. MARK-UP / RETURN / INTEREST EARNED		
On loans and advances		
- Customers	1,216,041	804,141
- Financial institutions	26,270	20,877
On investments in:		
- available for sale securities	232,832	137,725
- held to maturity securities	75,045	44,002
On deposits with financial institutions	99,184	22,012
On securities purchased under resale agreements	39,286	26,189
On call money lending	8,416	1,851
On listed equity securities purchased under resale agreements	93,273	16,685
On financing against shares	-	206
	<u>1,790,347</u>	<u>1,073,688</u>

	Note	2006 (Rupees in '000)	2005
24. MARK-UP/ RETURN / INTEREST EXPENSED			
Deposits		1,234,285	442,400
Securities sold under repurchase agreements		44,925	37,805
Borrowings from the State Bank of Pakistan under export refinance		98,916	52,151
Call borrowings		15,293	87,678
Term Finance Certificates		-	4,649
Forward cover fee		307	327
Amortisation of premium on securities		35,319	39,398
		<u>1,429,045</u>	<u>664,408</u>
25. GAIN ON SALE OF SECURITIES - NET			
Ordinary shares - listed		<u>124,506</u>	<u>19,248</u>
26. OTHER INCOME			
Gain on disposal of fixed assets - net		4,852	4,228
Others		20,059	13,135
		<u>24,911</u>	<u>17,363</u>
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits *		372,987	260,173
Contribution to defined contribution plan		12,080	8,280
Rent, taxes, insurance and electricity		102,843	64,926
Legal and professional charges		18,242	13,512
Communication		30,169	19,277
Repairs and maintenance		31,596	20,675
Software and IT service charges		9,885	17,652
Finance charge on lease obligations		481	1,650
Stationery and printing		12,957	10,826
Advertisement and publicity		63,609	52,588
Depreciation	11.2	72,069	54,830
Amortisation	27.1	33,807	25,862
Auditors' remuneration	27.2	1,771	2,509
Vehicle running expenses		15,379	10,683
Brokerage and commission		2,027	2,977
Security charges		15,356	9,517
Fee and subscription		15,953	13,513
Correspondence charges		9,703	5,862
Entertainment		6,092	3,840
Traveling expenses		13,454	10,448
Donations	27.3	13	8,600
Others		13,050	4,197
		<u>853,523</u>	<u>622,397</u>

* This includes an amount of Rs. 21.475 million (2005: Rs. Nil) that has been charged in the financial statements in respect of the defined benefit gratuity scheme.

	Note	2006 (Rupees in '000)	2005
27.1 Amortisation			
Amortisation of goodwill		24,404	24,404
Amortisation of computer software	11.3	9,403	1,458
		<u>33,807</u>	<u>25,862</u>
27.2 Auditors' remuneration			
Audit fee		550	500
Fee for half yearly review		150	100
Special certifications and sundry advisory services		230	745
Tax services		684	1,010
Out-of-pocket expenses		157	154
		<u>1,771</u>	<u>2,509</u>

	2006 (Rupees in '000)	2005
27.3 Donations made during the year in excess of Rs. 100,000		
Citizen's Foundation	-	3,000
President Relief Fund 2005	-	2,500
KASB Foundation	-	2,500
Grapevine	-	500
	<u>-</u>	<u>8,500</u>
28. OTHER PROVISIONS / WRITE OFFS		
Security deposits written off	976	-
Provision against other assets - net	375	-
Fixed assets written off	105	54
	<u>1,456</u>	<u>54</u>
29. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	<u>5,188</u>	<u>3,994</u>
30. TAXATION		
For the year		
Current	19,868	9,541
Deferred	(164,679)	(250,723)
	<u>(144,811)</u>	<u>(241,182)</u>
For prior years		
Current	-	2,795
Deferred	60,259	-
	<u>(84,552)</u>	<u>(238,387)</u>
30.1 Relationship between tax expense and accounting profit / (loss)		2006
Profit before taxation		<u>52,795</u>
Tax at the applicable tax rate of 35 percent		18,478
Tax effect on separate block of income		(51,840)
Tax effect on exempt income		(76,223)
Tax effect on permanent differences		(35,226)
Deferred tax - prior years		60,259
		<u>(84,552)</u>

30.2 The income tax assessments of the bank have been finalised upto and including the Tax Year 2006. The assessment for the Tax Year 2004 has been amended by the Taxation Officer resulting in an additional tax liability of Rs 68.456 million. The Commissioner of Income Tax Appeals (CIT – Appeals) through its order dated May 15, 2006 has also decided the matter against the bank and has maintained the disallowances made by the Taxation Officer. In this regard, the bank has filed an appeal before the Income Tax Appellate Tribunal (ITAT) which is pending till date.

The management is hopeful of a favourable decision in appeals. However, on a prudent basis, in connection with the above, tax impact of Rs 16.927 million in respect of certain disallowances made by the income tax authorities has been incorporated in these financial statements. No provision for any implication arising out of the above disallowances has been made in these financial statements in respect of the current year or other Tax years which are deemed to be assessed under the Income Tax Ordinance, 2001.

Further, the income tax assessment years 1999-2000 to 2002–2003 are pending at various appellate stages. During the current year, the bank received an appellate order from the CIT (Appeals) in respect of assessment year 2002-2003 and a refund of Rs 1.178 million has been determined.

- 30.3 During the year appellate orders were received by the Mirpur Azad Kashmir branch of the bank in respect of assessment years 2001-2002 and 2002-2003, tax year 2003 and tax year 2004. Tax demand of Rs. 0.055 million, Rs. 0.570 million and Rs. 2.243 million was raised in respect of assessment year 2002-2003, tax year 2003 and tax year 2004 respectively. The bank has paid the demand raised by the authorities. However, the bank has filed appeals with the ITAT in respect of disallowances of certain expenses. The bank has also filed an application for the constitution of an Alternate Dispute Resolution (ADR) Committee for the resolution of issues relating to mark-up on Head Office account and profit on debts paid to government departments without deduction of withholding tax.

	2006	2005
	(Rupees in '000)	
31. BASIC / DILUTED EARNINGS PER SHARE		
Profit / (loss) for the year after taxation	<u>137,347</u>	<u>(273,034)</u>
	Number of Shares	
Weighted average number of ordinary shares outstanding during the year	<u>213,414,887</u>	<u>200,389,581</u>
	(Rupees)	
Basic and diluted earnings / (loss) per share - after tax	<u>0.64</u>	<u>(1.36)</u>

	Note	2006	2005
		(Rupees in '000)	
32. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	2,305,082	1,082,524
Balances with other banks	7	799,731	817,078
Overdrawn nostro accounts	16	<u>(8,188)</u>	<u>(335,414)</u>
		<u>3,096,625</u>	<u>1,564,188</u>

	Number	
33. STAFF STRENGTH		
Permanent	637	516
Temporary / on contractual basis	57	53
Bank's own staff strength at the end of the year	<u>694</u>	<u>569</u>
Outsourced*	370	246
Total staff strength	<u>1,064</u>	<u>815</u>

* Outsourced staff includes those employees that are hired by an outside contractor / agency and are posted in the bank to perform various tasks / activities of the bank.

34. STAFF RETIREMENT BENEFITS

34.1 Defined contribution plan

The bank operates a recognised provident fund scheme for all its permanent employees which is administered by the Board of Trustees. The bank and the employees make matching contributions to the fund at the rate of 8.33 percent of basic salary in accordance with the rules of the Trust.

34.2 Defined benefit scheme

The bank has introduced an approved unfunded gratuity scheme for all its permanent employees in the current year. The actuarial valuation of the gratuity scheme was carried out as at December 31, 2006 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:

	2006	2005
Discount rate	10%	-
Expected rate of return on plan assets	-	-
Expected rate of salary increase	10%	-
34.3 Reconciliation of liability recognised by the bank		
	(Rupees in '000)	
Present value of unfunded obligations	26,815	-
Fair value of plan assets	-	-
Unrecognised actuarial losses	-	-
Unrecognised past service cost	<u>(6,052)</u>	-
Liability recognised by the bank	<u>20,763</u>	<u>-</u>

	2006 (Rupees in '000)	2005
34.4 Movement in liability recognised by the bank		
Balance as at January 1	-	-
Charge for the year	21,475	-
Payments made during the year	(712)	-
Balance as at December 31	<u>20,763</u>	<u>-</u>
34.5 Charge for the year		
Current service cost	4,653	-
Interest cost	1,018	-
Actuarial losses recognised	788	-
Past service cost recognised	15,016	-
	<u>21,475</u>	<u>-</u>

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration, including all benefits to the Chief Executive, Directors and Executives of the bank is as follows:

	President / Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	----- Rupees in 000 -----					
Fees	-	-	2,497	1,836	-	-
Managerial remuneration	6,800	3,221	532	6,245	67,734	36,983
Contribution to defined contribution plan	567	268	-	432	4,767	2,301
Contribution to defined benefit plan	393	-	-	-	6,159	-
Rent and house maintenance	2,040	966	218	1,989	20,320	11,095
Utilities	680	322	-	518	6,773	3,698
Medical	680	322	-	518	6,773	3,698
Others	1,099	408	89	2,483	11,325	9,789
	<u>12,259</u>	<u>5,507</u>	<u>3,336</u>	<u>14,021</u>	<u>123,851</u>	<u>67,564</u>
Number of persons	<u>1</u>	<u>2</u>	<u>9</u>	<u>10</u>	<u>70</u>	<u>42</u>

35.1 Fees paid to directors includes fees in respect of three directors of the bank who left employment during the year.

35.2 The bank provides free use of bank maintained cars to the Chief Executive and certain executives in accordance with the terms of their employment.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

	2006		2005	
	Book value	Fair value	Book value	Fair value
	-----Rupees in 000-----			
Assets				
Cash balances with treasury banks	2,305,082	2,305,082	1,082,524	1,082,524
Balances with other banks	799,731	799,731	817,078	817,078
Lendings to financial institutions	2,305,232	2,305,232	1,077,546	1,077,546
Investments	4,364,312	4,364,312	3,487,142	3,487,142
Advances	14,516,143	14,516,143	10,739,337	10,739,337
Other assets	461,493	461,493	272,132	272,132
	<u>24,751,993</u>	<u>24,751,993</u>	<u>17,475,759</u>	<u>17,475,759</u>
Liabilities				
Bills payable	199,670	199,670	127,446	127,446
Borrowings	2,176,032	2,176,032	1,931,448	1,931,448
Deposits and other accounts	21,275,570	21,275,570	14,828,110	14,828,110
Liabilities against assets subject to finance lease	3,775	3,775	9,493	9,493
Other liabilities	711,203	711,203	434,829	434,829
	<u>24,366,250</u>	<u>24,366,250</u>	<u>17,331,326</u>	<u>17,331,326</u>

36.2 **Off-balance sheet financial instruments**

	2006		2005	
	Book value	Fair value	Book value	Fair value
-----Rupees in 000-----				
Forward purchase of foreign exchange	63,847	64,063	1,205,961	1,202,391
Forward agreements for borrowings	-	-	-	-
Forward sale of foreign exchange	303,905	303,792	1,449,416	1,440,468
Forward agreements for lendings	-	-	-	-

37. **Segment details with respect to business activities**

The segment analysis with respect to business activities of the bank is as follows:

	Trading and sales	Retail banking	Commercial banking	Others	Total
-----Rupees in 000-----					
December 31, 2006					
Total income (net of interest expense and provisions)	327,809	180,303	225,433	179,417	912,962
Administrative and other expenses	10,541	-	976	848,650	860,167
Net income / (loss) before tax	317,268	180,303	224,457	(669,233)	52,795
Segment assets (gross)	8,293,594	438,360	14,160,661	4,356,073	27,248,688
Segment non-performing loans	-	183,550	833,160	-	1,016,710
Segment provision required	10,185	157,528	537,533	4,707	709,953
Segment liabilities	139,177	5,775,364	18,174,682	320,715	24,409,938

37.1 The bank is in the process of upgrading its systems and this will also appropriately cater to the information requirements for preparation of an accurate and meaningful segment analysis. However, in the interim stage, the above analysis has been prepared on the basis of certain estimates and application of judgement including the following:

- cost of deposits has been allocated to the business activities on the basis of the ratio of different types of deposits. The ratio used has been determined based on the deposits of the bank as at December 31, 2006.
- net investment in finance leases has been classified under the commercial banking activity.
- deferred taxation on provision against advances and mark-up in suspense account has been classified under the commercial banking activity, while the remaining deferred tax balance has been classified as "others".

38. **TRUST ACTIVITIES**

The bank is not engaged in any significant trust activities.

39. **RELATED PARTY TRANSACTIONS**

The bank has a related party relationship with its associated undertakings, subsidiary companies, employee benefit plans, and its key management personnel (including their associates). The details of investments in subsidiary companies is stated in note 9.15 to these financial statements.

Transactions between the bank and its related parties are carried out on an arm's length basis under the comparable uncontrolled price method, except for communication expenses that are carried out on 'cost plus' method.

Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 10.7 to these financial statements. There were no transactions with key management personnel other than those that are entered into with them under the terms of their employment. Details of remuneration to the executives and disposals of vehicles are disclosed in notes 35 and 11.7 to these financial statements, respectively.

	December 31, 2006				December 31, 2005 - Restated			
	Key				Key			
	Subsidiaries	Directors	Management Personnel	Associates	Subsidiaries	Directors	Management Personnel	Associates
----- Rupees in '000 -----								
Balances outstanding as at the period end								
Loans and advances								
Balance as at January 1	44,659	-	21,059	1,738	47,183	-	19,475	-
Disbursed during the year	-	-	19,072	4,896	2,050	-	19,209	-
Repayments during the year	21,568	-	14,227	1,505	2,836	-	17,625	-
Balance as at December 31	23,091	-	25,904	5,129	46,397	-	21,059	-
Deposit accounts								
Balance as at January 1	134,894	3,801	4,333	9,023	221,619	1,819	3,592	1,934
Deposits received during the year	#####	#####	66,412	1,541,067	97,656,465	#####	3,918	57,360
Withdrawals during the year	#####	#####	64,260	1,547,666	97,740,922	#####	3,177	52,539
Balance as at December 31	83,054	4,109	6,485	2,424	137,162	3,801	4,333	6,755
Unearned mark-up	-	-	-	678	236	**	-	-
Investments	-	-	-	250,000	-	-	-	-
Security Deposit against lease advances	-	-	-	593	476	-	-	-
Receivable against expenses	881	-	-	-	4,847	-	-	-
Commission income receivable	341	-	-	-	10,969	-	-	-
Creditors - Trading	5,488	-	-	-	10,977	-	-	-
Bank profit payable	176	367	42	-	334	-	-	-
Receivables - Trading	-	-	-	-	63,494	-	-	-
Markup Receivable	466	-	-	-	2,470	-	-	-
Dividend Receivable	50,100	-	-	-	-	-	-	-
Advertisement Receivable	-	-	-	-	2,000	-	-	-
Administrative Expenses Payable	1,045	-	-	-	-	-	-	-
Prepayments	2,354	-	-	-	-	-	-	-
Mark-up suspense	1,397	-	-	-	-	-	-	-
Distribution Income Receivable	-	-	-	114	-	-	-	-

* This amount represents transactions with KASB Funds Limited which was a subsidiary as at December 31, 2005, however, in the current year KASB Funds Limited became an associate therefore the opening balances are reported in Associates.

** Previous year this amount was subtracted from Loans and advances.

	December 31, 2006				December 31, 2005				
	Key				Key				
	Subsidiaries	Directors	Management Personnel	Associates	Subsidiaries	Directors	Management Personnel	Associates	
----- Rupees in '000 -----									
Profit / Expense for the period									
Brokerage commission paid	6,325	-	-	-	3,639	-	-	-	
Interest income on advances	3,799	-	699	299	14,983	-	-	-	
Interest expense on deposits	6,198	379	103	940	2,917	-	-	-	
Rent Income	522	-	-	-	504	-	-	-	
Lease income	38	-	-	-	292	-	-	-	
Rent Expense	3,086	-	-	-	3,025	-	-	-	
IT Service charges	1,278	-	-	-	903	-	-	-	
Communication expenses	1,435	-	-	-	801	-	-	-	
Advertisement sponsorship	-	-	-	2,190	-	-	-	1,287	
Dividend income	150,600	-	-	-	15,000	-	-	-	
Remuneration paid	-	1,500	41,330	-	-	-	-	-	
Directors Fees	-	2,610	-	-	-	-	-	-	
Proceeds from sale of property	16,000	-	-	-	-	-	-	-	
Proceeds from sale of vehicles	2,795	-	-	-	-	-	-	-	
Financial charges on leased assets	-	-	-	-	62	-	-	-	
Commission income	-	-	-	-	13,101	-	-	-	
Donations	-	-	-	-	-	-	-	2,500	
Bank Charges	-	-	-	3	-	-	-	-	
Lease Documentation Income	-	-	-	6	-	-	-	-	
Distribution and Facilitation Income	-	-	-	378	-	-	-	-	
Data Communication and Networking expenses	5865	-	-	-	-	-	-	-	
2006 2005 (Rupees in '000)									
Contribution to staff provident fund								12,080	8,280
Contribution to gratuity Scheme								21,475	-

40. CAPITAL ADEQUACY

40.1 Capital Adequacy Ratio

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

		2006		2005	
		Rupees in '000			
Regulatory capital base					
Tier I capital					
	Share capital	2,292,707		2,014,707	
	Reserves	32,508		5,039	
	Accumulated losses	(163,156)		(273,034)	
	Less: Adjustments	(513,539)		(528,161)	
	Tier I capital	1,648,520		1,218,551	
Tier II capital					
	General provisions subject to 1.25% of total risk weighted assets	1,577		1,182	
	Eligible surplus on revaluation of securities	8,905		4,534	
	Total Tier II capital	10,482		5,716	
		1,659,002		1,224,267	
	Eligible Tier III capital	-		-	
	Total regulatory capital (a)	1,659,002		1,224,267	
Risk-weighted exposures					
		2006		2005	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
-----Rupees in 000-----					
Credit risk					
Balance sheet items:					
	Cash and balances with treasury banks	2,305,082	11,651	1,082,524	14,090
	Balances with other banks	799,731	159,946	817,078	163,415
	Lendings to financial institutions	2,305,232	750,000	1,077,546	800,000
	Investments	4,694,312	1,867,773	3,821,943	634,205
	Advances	13,819,590	12,781,797	10,278,121	9,464,532
	Operating fixed assets	673,064	673,064	471,944	447,513
	Deferred tax assets - net	488,621	488,621	383,201	383,201
	Other assets	759,975	534,561	709,414	514,160
		25,845,607	17,267,413	18,641,771	12,421,116
Off balance sheet items					
	Loan repayment guarantees	2,069,665	2,069,665	1,101,314	1,101,314
	Performance Bonds etc	2,784,751	1,392,376	1,654,761	827,381
	Stand by letters of credit	2,739,219	1,369,609	2,175,190	1,087,595
	Outstanding foreign exchange contracts				
	-Purchase	63,847	496	1,205,961	5,208
	-Sale	303,905	498	1,449,416	5,009
		7,961,387	4,832,644	7,586,642	3,026,507
	Credit risk-weighted exposures		22,100,057		15,447,623
Market risk					
	General market risk		199,878		118,082
	Specific market risk		252,788		225,150
	Market risk-weighted exposures		452,666		343,232
	Total risk-weighted exposures (b)		22,552,723		15,790,855
Capital Adequacy Ratio [(a) / (b) x 100]			7.36%		7.75%

40.2 These are stated gross of general reserve amounting to Rs 1,577 thousand (2005: Nil). This reserve has been added to the supplementary capital. Further, the amount of cash margins, deposits and government securities deducted is Rs. 694,705 thousand (2005:Rs. 461,216 thousand).

- 40.3 Cash margins, deposits and government securities deducted from loan repayment guarantees, performance bonds and letters of credit amount to Rs. 47,026 thousand (2005: Rs 13,575 thousand), Rs. 245,333 thousand (2005: Rs. 187,641 thousand) and Rs. 83,727 thousand (2005: Rs. 61,159 thousand) respectively.
- 40.4 Contracts having original maturities of 14 days or less have been excluded.
- 40.5 In order to comply with the minimum Capital Adequacy Ratio (CAR) requirement of 8 percent and minimum capital requirement of Rs 3 billion applicable as at December 31, 2006, the bank has decided to merge with International Housing Finance Limited (IHFL). The details relating to the proposed merger are given in note 20.3 to these financial statements.

41. **RISK MANAGEMENT**

The bank's business activities expose it to a wide variety of risks, which are inherent in virtually all aspects of its operations. The management's goal in managing these risks is to protect the enterprise from an unacceptable level of earnings volatility while supporting and enabling business opportunities. This is done by ensuring that the risks arising from business activities and transactions provide an appropriate balance of return for the risk assumed and remain within the bank's risk appetite. KASB Bank has recently initiated a process to set up a risk management framework which is designed to ensure sound risk management practices guided by best industry practices. The cornerstone of this risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and limits, which involve the bank's risk management professionals, business segments and other functional teams. This partnership is designed to ensure the ongoing alignment of business strategies and activities with the bank's risk appetite. The primary risks associated with the bank are:

- Credit risk is the risk of loss resulting from client or counterparty default
- Market risk is exposure to market variables such as interest rates, exchange rates and equity indices
- Liquidity risk is the risk that the bank may be unable to meet its payment obligations when due
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk

Representations of risk are for a given period and the bank's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. There have been many initiatives started by the Bank including IT projects for replacing the core Banking system, business process re-engineering and inventorying the risks and controls within the Bank's existing business and process units. All of these initiatives, as they partially or completely roll out, will have a direct impact on the risk management function within the bank.

The Risk Management structure at KASB Bank has recently been reorganized to have Credit Administration, Financial Risk, Credit Policy, Consumer and Retail Credit, Credit Risk Management and Operational Risk and Basel II functions reporting directly to Group Head Risk Management. The bank is in the process of putting the new structure in place and is also involved in the screening and appointing of critical human resources in each area. The main objective is to develop a dedicated risk management team which is capable of developing and maintaining a sound risk management culture at the bank.

41.1 **Credit risk**

Credit risk is the risk of loss to the Bank as a result of failure by a client or counterparty to meet its contractual obligations. It is inherent in loans, commitments to lend and contingent liabilities, such as letters of credit – and in traded products, repurchase agreements (repos and reverse repos) and securities borrowing and lending transactions.

The role of the Risk Management in credit risk includes:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Bank's overall objectives.
- Working with Business Groups in keeping aggregate credit risk well within the Bank's risk taking capacity.
- Developing and maintaining Credit Approval Authority structure.
- Approving major credits.
- Recommending approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the Bank.
- Organizing portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

The wholesale portfolio, which includes corporate, Middle Market and SME loans are ideally collateralized by cash equivalents, fixed and current assets including stocks, property plant and equipment, and land. Loans to individuals are typically secured by cash equivalents or residential mortgage.

The Bank manages limits and controls concentrations of credit risk as identified, in particular to individual counterparties and groups, and to industries, where appropriate. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Bank sets limits on its credit exposure to counterparty groups, by industry, product, counterparty and geographical location, in line with SBP directions/guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the Bank considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

41.1.1 Segmental information

41.1.1.1 Segments by class of business	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	209,476	1.38%	279,453	1.31%	186,745	2.23%
Mining and Quarrying	132,743	0.87%	330,960	1.56%	-	0.00%
Textile	3,397,399	22.34%	830,727	3.90%	1,235,160	14.76%
Chemical and Pharmaceuticals	450,059	2.96%	201,290	0.95%	672,808	8.04%
Cement	706,192	4.64%	77,674	0.37%	2,048	0.02%
Sugar	-	0.00%	4,407	0.02%	-	0.00%
Footwear and Leather garments	161,562	1.06%	19,394	0.09%	5,068	0.06%
Automobile and transportation equipment	534,605	3.52%	214,219	1.01%	180,396	2.16%
Electronics and electrical appliances	219,737	1.44%	590,937	2.78%	15,115	0.18%
Construction	545,585	3.59%	1,289,370	6.06%	170,815	2.04%
Base Metal	-	0.00%	-	0.00%	637,330	7.61%
Power (electricity), Gas, Water, Sanitary	67,250	0.44%	635,086	2.99%	255,388	3.05%
Wholesale and Retail Trade	1,600,814	10.53%	1,988,566	9.35%	252,336	3.01%
Exports/Imports	650,969	4.28%	161,747	0.76%	-	0.00%
Transport, Storage and Communication	1,307,897	8.60%	165,860	0.78%	765,388	9.14%
Financial	1,255,720	8.26%	2,828,704	13.30%	330,310	3.95%
Insurance	1,932	0.01%	338,906	1.59%	-	0.00%
Services	946,977	6.23%	1,501,716	7.06%	19,933	0.24%
Individuals	1,061,189	6.98%	4,882,601	22.95%	-	0.00%
Others	1,957,673	12.87%	4,933,953	23.19%	3,640,972	43.50%
	15,207,779	100.00%	21,275,570	100.00%	8,369,812	100.00%

Segments by class of business

Segments by class of business	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Chemical and Pharmaceuticals	260,528	2.29%	84,952	0.57%	205,879	2.62%
Agribusiness	12,136	0.11%	24,542	0.17%	892	0.01%
Textile	3,434,825	30.14%	1,346,947	9.08%	878,261	11.19%
Cement	87,581	0.77%	5,913	0.04%	710,120	9.04%
Sugar	20,000	0.18%	179,903	1.21%	150,000	1.91%
Shoes and leather garments	18,289	0.16%	19,091	0.13%	42,865	0.55%
Automobile and transportation equipment	1,559,669	13.68%	471,061	3.18%	131,646	1.68%
Financial	145,620	1.28%	871,526	5.88%	2,625,938	33.45%
Insurance	1,479	0.01%	326,609	2.20%	-	0.00%
Electronics and electrical appliances	121,409	1.07%	357,041	2.41%	339,450	4.32%
Production and transmission of energy	402,984	3.54%	806,101	5.44%	246,263	3.14%
Individuals	1,055,615	9.26%	4,133,680	27.88%	3,314	0.04%
Others	4,277,535	37.53%	6,200,744	41.82%	2,516,351	32.05%
	11,397,670	100.00%	14,828,110	100.00%	7,850,979	100.00%

41.1.1.2 Segment by sector

41.1.1.2 Segment by sector	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	-	0.00%	1,480,417	6.96%	8,858	0.11%
Private	15,207,779	100.00%	19,795,153	93.04%	8,360,954	99.89%
	15,207,779	100.00%	21,275,570	100.00%	8,369,812	100.00%

Segment by sector

	2005					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	-	-	1,792,489	12.09%	239,638	3.05%
Private	10,739,337	100.00%	13,035,621	87.91%	7,611,341	96.95%
	<u>10,739,337</u>	<u>100.00%</u>	<u>14,828,110</u>	<u>100.00%</u>	<u>7,850,979</u>	<u>100.00%</u>

41.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in 000-----			
Agriculture, Forestry, Hunting and Fishing	3,750	3,750	2,300	2,300
Mining and Quarrying	-	-	-	-
Chemical & Pharmaceuticals	9,189	9,189	9,198	3,499
Cement	-	-	-	-
Textile	462,347	300,329	250,109	135,693
Sugar	-	-	-	-
Footwear & Leather garments	9,939	9,939	16,011	8,897
Automobile & Transportation equipment	360,471	296,498	423,778	301,548
Electronics and electrical appliances	25,917	14,371	26,508	13,842
Construction	6,373	-	5,628	5,628
Power (electricity), Gas, water, sanitary	-	-	-	-
Wholesale / Retail Trade	1,780	1,780	3,271	1,851
Exports / Imports	42,546	29,642	20,329	18,224
Transport, Storage and Communication	-	-	-	-
Financial	5,460	5,460	5,673	5,673
Insurance	-	-	442	442
Services	-	-	-	-
Individuals	13,161	11,233	8,408	5,418
Others	75,777	11,293	298,778	151,448
	<u>1,016,710</u>	<u>693,484</u>	<u>1,070,433</u>	<u>654,463</u>

41.1.1.4 Details of non-performing advances and specific provisions by sector

	2006		2005	
	Classified Advances	Specific Provisions Held	Classified Advances	Specific Provisions Held
	-----Rupees in 000-----			
Public/ Government	-	-	-	-
Private	1,016,710	693,484	1,070,433	654,463
	<u>1,016,710</u>	<u>693,484</u>	<u>1,070,433</u>	<u>654,463</u>

41.1.1.5 Geographical segment analysis

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in 000-----			
Pakistan	52,795	26,538,735	2,128,797	8,369,812
Others	-	-	-	-
	<u>52,795</u>	<u>26,538,735</u>	<u>2,128,797</u>	<u>8,369,812</u>
	2005			
	Profit / (loss) before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in 000-----			
Pakistan	(511,421)	19,102,987	1,735,962	7,850,979
Others	-	-	-	-
	<u>(511,421)</u>	<u>19,102,987</u>	<u>1,735,962</u>	<u>7,850,979</u>

Total assets employed include intra group items of Rs. Nil million

41.2 Market risk

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations.

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

Trading activities are centered in the Treasury and include market making, facilitation of client business and proprietary position taking, fixed income and interest rate products and foreign exchange and also badla financing.

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates ('risk factors'), and on positions in the securities of individual issuers.

Financial Risk Management Unit performs all market risk management activities within the Bank. FRM Unit is responsible for developing and reviewing market risk policies, strategies & processes. It has to ensure monitoring and implementation of market risk and other policies, escalation of any deviation to senior management, compilation and MIS reporting, etc.

The scope of market risk management is as follows:

- To keep the market risk exposure within the bank's risk appetite as assigned by the Board of Directors (BOD).
- All the market risk policies are approved by the RMC of the Board and implementation is done by the senior management through MRPC, Treasury and FRM unit.
- Various limits have been assigned on a portfolio basis.

41.2.1 Foreign exchange risk

Foreign Exchange Risk is the risk of loss resulting from changes in exchange rates. Foreign exchange positions are reported on a consolidated basis and limits are used to monitor exposure in individual currencies.

The trading exposures are subject to prescribed stress, sensitivity and concentration limits.

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- Rupees in '000 -----			
Pakistan rupee	23,888,875	23,807,908	240,058	321,025
United States dollar	786,465	498,700	(240,901)	46,864
Great Britain pound	35,599	33,109	816	3,306
Canadian Dollar	1,974	-	-	1,974
Japanese yen	1,357	5	-	1,352
Euro	36,220	26,528	27	9,719
Other currencies (to be specified, if material)	1,503	-	-	1,503
	<u>24,751,993</u>	<u>24,366,250</u>	<u>-</u>	<u>385,743</u>
	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency exposure
	----- Rupees in '000 -----			
Pakistan rupee	16,396,718	16,663,848	243,455	(23,675)
United States dollar	866,457	589,023	(152,773)	124,661
Great Britain pound	6,626	67,356	71,210	10,480
Canadian Dollar	60,744	-	(59,790)	954
Japanese yen	43,525	36	(41,881)	1,608
Euro	97,782	11,063	(60,221)	26,498
Other currencies (to be specified, if material)	3,937	-	-	3,937
	<u>17,475,789</u>	<u>17,331,326</u>	<u>-</u>	<u>144,463</u>

41.2.2 Equity position risk

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. The Bank's equity trading book comprises of Held for trading (HFT) & Available for Sale (AFS) portfolios and Corporate Finance (CF) AFS portfolio. Objective of Treasury HFT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium-term view of capital gains and dividend income. CF maintains its AFS portfolio with a medium-long term view of capital gains and higher dividend yields.

41.2.3 Mismatch of interest rate sensitive assets and liabilities

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The bank is exposed to yield / interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The bank manages this risk by matching the re-pricing of assets and liabilities and off-balance sheet instruments. The bank's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

Effective yield / Interest rate	Total	2006									Non-interest bearing financial instruments	
		Exposed to Yield/ Interest risk										
		Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
----- Rupees in '000 -----												
On-balance sheet financial instruments												
Assets												
Cash and balances with												
treasury banks	4.05%	2,305,082	80,228	-	-	-	-	-	-	-	2,224,854	
Balances with other												
banks	4.25%	799,731	115,233	-	-	-	-	-	-	-	684,498	
Lending to financial												
institutions	10.10%	2,305,232	1,638,076	592,156	75,000	-	-	-	-	-	-	
Investments	8.27%	4,364,312	420,944	19,186	10,823	1,064,545	52,233	75,236	185,663	858,161	1,677,521	
Advances												
Performing	11.73%	14,194,494	3,543,070	2,831,308	4,246,960	483,039	723,634	723,634	1,428,439	112,931	101,479	
Non performing - net of provision	-	321,649	-	-	-	-	-	-	-	-	321,649	
Other assets	-	461,493	-	-	-	-	-	-	-	-	461,493	
		24,751,993	5,797,551	3,442,650	4,332,783	1,547,584	775,867	798,870	1,614,102	971,092	101,479	5,370,015
Liabilities												
Bills payable		199,670	-	-	-	-	-	-	-	-	-	199,670
Borrowings	7.73%	2,176,032	188,842	361,307	541,961	1,083,922	-	-	-	-	-	-
Deposits and other accounts	9.13%	21,275,570	5,517,175	7,835,584	847,904	724,847	885,271	1,486,914	352,367	-	-	3,625,508
Liabilities against assets subject to finance lease	7.85%	3,775	867	175	270	567	980	86	830	-	-	-
Other liabilities	-	711,203	-	-	-	-	-	-	-	-	-	711,203
		24,366,250	5,706,884	8,197,066	1,390,135	1,809,336	886,251	1,487,000	353,197	-	-	4,536,381
On-balance sheet gap		385,743	90,667	(4,754,416)	2,942,648	(261,752)	(110,384)	(688,130)	1,260,905	971,092	101,479	833,634
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		63,847	41,338	19,754	2,755	-	-	-	-	-	-	-
Forward sale of foreign exchange		(303,905)	(242,535)	(61,370)	-	-	-	-	-	-	-	-
Off-balance sheet gap		(240,058)	(201,197)	(41,616)	2,755	-	-	-	-	-	-	-
Total Yield/Interest Risk Sensitivity Gap			(110,530)	(4,796,032)	2,945,403	(261,752)	(110,384)	(688,130)	1,260,905	971,092	101,479	833,634
Cumulative Yield/Interest Risk Sensitivity Gap			(110,530)	(4,906,562)	(1,961,159)	(2,222,911)	(2,333,295)	(3,021,425)	(1,760,520)	(789,428)	(687,949)	145,685

41.3 Liquidity risk

The bank's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to business franchises. A centralized approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. The framework entails careful monitoring and control of the daily liquidity position.

41.3.1 Maturities of assets and liabilities

	2006									
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years
----- Rupees in '000 -----										
Assets										
Cash and balances with treasury banks	2,305,082	2,305,082	-	-	-	-	-	-	-	-
Balances with other banks	799,731	799,731	-	-	-	-	-	-	-	-
Lending to financial institutions	2,305,232	1,638,076	592,156	75,000	-	-	-	-	-	-
Investments	4,694,312	1,570,450	19,186	139,206	1,064,545	317,796	75,236	185,663	1,322,230	-
Advances										
Performing	14,194,494	3,543,070	2,831,308	4,246,960	483,039	723,634	723,634	1,428,439	112,931	101,479
Non performing - net of provisions	318,224	318,224	-	-	-	-	-	-	-	-
Operating fixed assets	673,064	12,997	25,992	38,990	77,977	72,194	72,197	97,523	132,290	142,904
Deferred tax assets	488,621	(50,167)	(4,307)	(6,461)	47,414	25,779	15,529	(20,583)	25,832	455,585
Other assets	759,975	211,681	269,548	16,378	86,435	52,996	32,426	64,852	25,659	-
	<u>26,538,735</u>	<u>10,349,144</u>	<u>3,733,883</u>	<u>4,510,073</u>	<u>1,759,410</u>	<u>1,192,399</u>	<u>919,022</u>	<u>1,755,894</u>	<u>1,618,942</u>	<u>699,968</u>
Liabilities										
Bills payable	199,670	199,670	-	-	-	-	-	-	-	-
Borrowings	2,176,032	188,842	361,307	541,961	1,083,922	-	-	-	-	-
Deposits and other accounts	21,275,570	6,725,678	10,252,589	847,904	724,847	885,271	1,486,914	352,367	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	3,775	867	175	270	567	980	86	830	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
Other liabilities	754,891	488,623	969	1,453	2,906	34,799	34,799	191,342	-	-
	<u>24,409,938</u>	<u>7,603,680</u>	<u>10,615,040</u>	<u>1,391,588</u>	<u>1,812,242</u>	<u>921,050</u>	<u>1,521,799</u>	<u>544,539</u>	<u>-</u>	<u>-</u>
Net assets	<u>2,128,797</u>	<u>2,745,464</u>	<u>(6,881,157)</u>	<u>3,118,485</u>	<u>(52,832)</u>	<u>271,349</u>	<u>(602,777)</u>	<u>1,211,355</u>	<u>1,618,942</u>	<u>699,968</u>
Share capital	2,292,707									
Reserves	111,748									
Effect of fair value measurement of capital on amalgamation	(79,240)									
Accumulated loss	(163,156)									
Surplus/(Deficit) on revaluation of assets	(33,262)									
	<u>2,128,797</u>									

41.3.2 The above mentioned maturity profile has been prepared in accordance with International Accounting Standard (IAS) 30: "Disclosures in the financial statements of banks and similar financial institutions" based on contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of current and savings deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The management believes that the maturity profile for deposits and other accounts, which includes maturities of current and savings deposits determined by the management keeping in view the historical withdrawal pattern of these deposits reflects a more meaningful analysis of the liquidity risk of the bank as follows:

	2006	2005
	----- Rupees in '000 -----	
Upto one month	4,707,576	5,340,564
One month to three months	5,144,010	333,584
Three months to six months	1,253,752	2,138,448
Six months to one year	1,871,649	667,166
One year to two years	1,848,825	1,171,681
Two years to three years	1,591,192	1,049,097
Three years to five years	1,725,929	1,118,027
Five years to ten years	3,132,637	3,009,543
Above ten years	-	-
	<u>21,275,570</u>	<u>14,828,110</u>

Current and saving deposits do not have any contractual maturity therefore, current deposits and saving accounts have been classified between all maturities upto 10 years. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

41.4 Operational risk

Operational Risk arises from a failure to properly control all aspects of the documentation, processing, settlement of and accounting for, transactions and more widely, all the hazards to which the bank is exposed to as a result of being in business and doing business. These risks and hazards arise predominantly from crime including fraud and theft committed by employees, customer or third parties, professional liability, contractual liability, statutory liability, business interruptions, malicious assault and attacks.

The bank's Operational Risk Management implementation framework is based on an appropriate risk management architecture. The framework is flexible enough to be implemented in stages.

Following are the strategic initiatives that the bank has undertaken for the effective implementation of Operational Risk Management:

- An effective and integrated operational risk management framework is in place, with appropriately defined roles and responsibilities for all aspects of the operational risk management.
- The bank is in the process of establishing appropriate tools which help in identification, assessment, control and reporting of key risks. The policy on operational risk will be submitted to BOD during the first quarter of 2007.
- Operational risk management policies and procedures have been aligned to the overall business strategy and helps to continually improve risk management of the bank.
- All business and support functions have been made an integral part of the overall operational risk management framework to enable that the institution effectively manages the key operational risks facing the bank.
- Appropriate line management has been established for the identification, assessment and mitigation of operational risk.

A consolidated Business Continuity Plan is being augmented for the bank which encompasses roles and responsibilities, disaster recovery strategy, IT systems and structural back ups, scenario and impact analyses and testing directives.

There are several IT developments underway in the credit, market and operational risk areas. Specifically for operational risk mitigation and control, an IT infrastructure is being developed along with the other high-level initiatives, including process re-engineering and inventorying of risks and controls within the Bank. A methodology for Risk and Control Self Assessment is approved and is under implementation across all the functions of the bank.

42. GENERAL

42.1 Revised forms of annual financial statements

These financial statements have been prepared using the revised format of financial statements prescribed in BSD Circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan. The revised format for presentation of financial statements is applicable for annual financial statements prepared by banks for periods commencing from January 1, 2006. The significant changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect to business activities and capital adequacy and expanded disclosures in respect to the bank's derivative instruments and risk management.

42.2 Comparatives

Comparative information has been re-classified and re-arranged in these financial statements, wherever necessary, to facilitate comparison and to conform with changes in the presentation format of the financial statements in the current year. Significant reclassifications made to comparative figures are as follows:

Cost of softwares and related accumulated amortisation amounting to Rs 24,835 thousand and Rs 404 thousand respectively have been reclassified to 'intangible assets'. Previously the cost of softwares net of accumulated amortisation was included in 'advances, deposits, advance rent and other prepayments' shown under the head 'other assets'.

43. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 06, 2007 by the Board of Directors of the bank.

President and Chief Executive

Director

Director

Director

**Statement showing written-off loans or any other financial relief
of five hundred thousands Rupees or above provided
during the year ended December 31, 2006**

(Rs. In millions)

S. No.	Name and address of the borrowers	Name of individuals / Partners / directors with (NIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest / Markup written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest / Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	Mekran Fisheries Office at B2 / B4, Fish Harbour, West Wharf, Karachi.	Azhar ul Haq Butt 512-93-097869 Tasawar ul Haq Butt 512-93-097849 Tanveer ul Haq Butt 512-55-177952 Imtiaz ul Haq Butt 512-91-177949	Muzzafar Din Muzzafar Din Muzzafar Din Muzzafar Din	103.200			103.200	19.643			19.643
2	Fatima Fazal Plot # 101-103, Industrial Triangle, Sihala Road, Islamabad	Mian Shiraz Masud 101-64-083486 Mian Waqas Masud 101-69-083488 Mian Shoukat Masud 101-89-083484 Gulzarina Begum 101-40-083483	Mian Masud Ahmed Mian Masud Ahmed Mian Masud Ahmed Mian Masud Ahmed	46.952	3.364	3.978	54.294	3.954	3.364		7.318
3	Khokhar Travel 33, Street 38, F-10/4, Islamabad	Zafar Iqbal 227-67-546887	Sher Muhammad	2.135	1.156		3.291	2.135	1.156		3.291
4	Balouch Transport 134 - A, Industrial estate Kot LakhPat, Green Town Lahore	Liaqat Ali Khan Khetran 35200-9070702-9 Nadir Ali 35202-30988653-5 Abdul Rehman Khan 32203-6205791-9 Muhammad Dilawar Khan 32203-4366402-7	Sardar Ahmed Nawaz Khan Khetran Liaqat Ali Khan Khetran Muhammad Ahmed Khan Sakhawat Ali Khan	9.870			9.870	1.380			1.380
5	First Dada Bhoj 5, Lal Muhammad Chaudhary Road, Karachi.	Abdul Rahim DadaBhoj 517-88-229561 Osman DadaBhoj 517-92-229562	Muhammad Farooq DadaBhoj Muhammad Farooq DadaBhoj	0.213	1.565		1.778		1.453		1.453
6	Diamond Tex 87-Ground floor, Textile Plaza M.A. Jinnah Road, Karachi	Shehzad Waseem 502-50-358062	Mian Muhammad Bashir		1.008		1.008		1.008		1.008
7	Bakers Delight 33 CCA (T), Phase II, DHA Lahore	Moinuddin Qureshi 270-85-407504 Salman Moin Qureshi 270-62-103491	Mumtazuddin Qureshi Moinuddin Qureshi	0.846	0.231		1.077	0.846	0.231		1.077
8	Salman & Co. 146/1 Street 11, Cavalary Ground, Lahore.	Moinuddin Qureshi 270-85-407504 Salman Moin Qureshi 270-62-103491	Mumtazuddin Qureshi Moinuddin Qureshi	0.661	0.159		0.820	0.661	0.159		0.820
9	Ali Con (Pvt) Ltd. 42, Link Alla-u-ddin Road off Zafar Afridi Road, Cantt Lahore	Iftikhar A.Farooqi 277-30-301654 Syed Zahoor Ahmed 351-22-182698 Mustafa A. Farooqi 277-92-301658	Faiz Muhammad Farooqi Muhammad Iqbal Hussain Iftikhar Ahmed Farooqi	3.752	0.241		3.993	0.752	0.241		0.993
								29.371	7.612	0	36.983

A.F.Ferguson & Co
Chartered Accountants
State Life Building No. 1-C
I.I.Chundrigar Road, P.O.Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of **KASB Bank Limited** and its subsidiary companies as at December 31, 2006 and the related consolidated Profit and Loss Account, consolidated Statement of Changes in Equity and consolidated Cash Flow Statement together with the notes forming part thereof, for the year then ended. These financial statements include unaudited certified returns from the branches, except for eight branches which have been audited by us. We have expressed a separate opinion on the financial statements of KASB Bank Limited which includes a matter of emphasis paragraph as explained below. In addition we have issued an unqualified review report on the financial statements of KASB Securities Limited while our review report on the financial statements of KASB Technology Services Limited contained an emphasis of matter paragraph on its ability to continue as a going concern. The financial statements of New Horizon Exploration and Production Limited for the half year ended December 31, 2006 were audited by another firm of chartered accountants who issued an unqualified report thereon and our opinion in so far as it relates to the amounts included for this company is based solely on the report of such auditors. The financial statements of the subsidiary companies were reviewed under International Standard on Review Engagements 2400. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements examined by us, based on eight branches audited by us and the returns referred to above received from the branches which have been found adequate for the purposes of our audit, present fairly the financial position of KASB Bank Limited and its subsidiary companies as at December 31, 2006 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Without qualifying our opinion we draw attention to note 20.3 to the financial statements and our audit report on the financial statements of KASB Bank Limited which highlights that KASB Bank Limited has not been able to meet the minimum paid-up capital requirement (net of losses) of Rs 3 billion and the stand alone capital adequacy ratio of 8 percent, as applicable to the bank for the current year. The State Bank of Pakistan has granted extension to the bank in meeting the aforementioned minimum capital requirements uptill March 31, 2007 in view of the fact that in order to achieve compliance with the above minimum capital requirements the bank has decided to merge with International Housing Finance Limited (IHFL), a company in which a sponsor / director of the bank has a significant shareholding.


Chartered Accountants

Karachi

07 MAR 2007

**KASB BANK LIMITED
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2006**

	Note	2006 (Rupees in '000)	2005
ASSETS			
Cash and balances with treasury banks	6	2,305,248	1,082,856
Balances with other banks	7	976,257	876,446
Lendings to financial institutions	8	2,305,232	1,077,546
Investments	9	4,635,204	3,635,037
Advances	10	14,489,626	10,695,320
Operating fixed assets	11	915,397	701,701
Deferred tax assets - net	12	538,267	383,746
Other assets	13	1,608,221	2,018,542
		<u>27,773,452</u>	<u>20,471,194</u>
LIABILITIES			
Bills payable	15	199,670	127,446
Borrowings	16	2,176,032	2,126,141
Deposits and other accounts	17	21,191,480	14,700,257
Sub-ordinated loans		-	-
Liabilities against assets subject to finance lease	18	18,979	18,836
Deferred tax liabilities		-	-
Other liabilities	19	1,824,827	1,678,680
		<u>25,410,988</u>	<u>18,651,360</u>
NET ASSETS		<u><u>2,362,464</u></u>	<u><u>1,819,834</u></u>
REPRESENTED BY			
Share capital	20	2,292,707	2,014,707
Revenue reserves		138,161	84,279
Accumulated loss		(62,876)	(210,794)
Effect of fair value measurement of capital on amalgamation		(79,240)	(79,240)
		<u>2,288,752</u>	<u>1,808,952</u>
Minority Interest		21,369	-
Deficit on revaluation of securities - net of tax	21	52,343	10,882
		<u><u>2,362,464</u></u>	<u><u>1,819,834</u></u>
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 43 and Annexure - I form an integral part of these financial statements.

President and Chief Executive

Director

Director

Director

KASB BANK LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005
		(Rupees in '000)	
Mark-up / return / interest earned	23	1,813,956	1,094,585
Mark-up / return / interest expensed	24	1,451,087	682,937
Net mark-up / interest income		362,869	411,648
Provision against non-performing loans and advances - net	10.4	68,149	463,724
(Reversal of provision) / provision for diminution in the value of investments - net	9.9	(26,862)	31,385
Bad debts written off directly	10.5	-	-
		41,287	495,109
Net mark-up / return/ interest after provisions		321,582	(83,461)
Non mark-up / interest income			
Fee, commission and brokerage income		625,377	503,013
Dividend income		30,072	16,650
Income from dealing in foreign currencies		47,454	45,342
Gain on sale of securities - net	25	141,081	41,195
Unrealised gain / (loss) on revaluation of investments classified as held for trading	9.11	129,315	(4,617)
Other income	26	47,942	29,476
Total non mark-up / interest income		1,021,241	631,059
		1,342,823	547,598
Non mark-up / interest expenses			
Administrative expenses	27	1,218,323	924,201
Other provisions / write offs	28	1,446	27,069
Other charges	29	5,188	3,994
Total non mark-up / interest expenses		1,224,957	955,264
		117,866	(407,666)
Gain on deemed disposal	9.15	8,048	-
Share of loss of associate	9.15	(2,155)	-
Extraordinary items		-	-
Profit / (loss) before taxation		123,759	(407,666)
Taxation - Current year	30	85,104	50,013
- Prior years	30	(1,826)	(1,235)
- Deferred	30	(161,319)	(251,268)
		(78,041)	(202,490)
Profit / (loss) after taxation		201,800	(205,176)
Minority interest		-	-
Profit / (loss) attributable to parent entity		201,800	(205,176)
Accumulated loss brought forward		(210,794)	(5,618)
Accumulated loss carried forward		(8,994)	(210,794)
Basic / diluted earnings / (loss) per share	31	0.95	(1.02)

The annexed notes 1 to 43 and Annexure - I form an integral part of these financial statements.

President and Chief Executive

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KASB BANK LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Share capital	Statutory reserve	General reserve	Revenue reserves	Accumulated loss	Effect of fair value measurement of capital on amalgamation	Total
----- (Rupees in '000) -----							
Balance as at December 31, 2004	1,707,379	83,895	384	84,279	(5,618)	(79,240)	1,706,800
Right shares subscribed	307,328	-	-	-	-	-	307,328
Loss after taxation for the year ended December 31, 2005	-	-	-	-	(205,176)	-	(205,176)
Transfer to statutory reserve	-	-	-	-	-	-	-
Balance as at December 31, 2005	<u>2,014,707</u>	<u>83,895</u>	<u>384</u>	<u>84,279</u>	<u>(210,794)</u>	<u>(79,240)</u>	<u>1,808,952</u>
Issue of right shares	278,000	-	-	-	-	-	278,000
Profit after taxation for the year ended December 31, 2006	-	-	-	-	201,800	-	201,800
Transfer to general reserve	-	-	26,413	26,413	(26,413)	-	-
Transfer to statutory reserve	-	27,469	-	27,469	(27,469)	-	-
Balance as at December 31, 2006	<u><u>2,292,707</u></u>	<u><u>111,364</u></u>	<u><u>26,797</u></u>	<u><u>138,161</u></u>	<u><u>(62,876)</u></u>	<u><u>(79,240)</u></u>	<u><u>2,288,752</u></u>

The annexed notes 1 to 43 and Annexure - I form an integral part of these financial statements.

President and Chief Executive

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Director

Director

KASB BANK LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006 (Rupees in '000)	2005
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / (loss) before taxation		123,759	(407,666)
Less: Dividend income		(30,072)	(16,650)
		93,687	(424,316)
Adjustments for non-cash and other items :			
Depreciation		111,808	79,103
Gain on deemed disposal		(8,048)	-
Share of loss from associate		2,155	-
Amortisation		32,015	23,430
Provision against non-performing loans and advances - net		68,149	463,724
(Reversal of provision) / provision for compensated absences		(2,160)	2,079
Provision for gratuity		20,763	-
Gain on sale of fixed assets - net		(3,278)	(5,845)
Unrealised (gain) / loss on revaluation of investments classified as held for trading		(129,315)	4,617
(Reversal of provision) / provision for diminution in the value of investments		(26,862)	31,385
Amortisation of premium on investments		35,319	39,398
Finance charges on leased assets		2,499	2,504
		103,045	640,395
		196,732	216,079
(Increase) / decrease in operating assets			
Lendings to financial institutions		(1,227,686)	(378,527)
Held for trading securities		23,129	(109,290)
Advances		(3,860,953)	(2,911,469)
Others assets (excluding advance taxation)		430,479	(1,230,620)
		(4,635,031)	(4,629,906)
Increase / (decrease) in operating liabilities			
Bills payable		72,224	(38,687)
Borrowings from financial institutions		571,810	(550,263)
Deposits		6,488,976	3,720,667
Other liabilities		128,165	504,336
		7,261,175	3,636,053
		2,822,876	(777,774)
Income tax (paid) / refunded		(113,886)	24,969
Net cash flow from operating activities		2,708,990	(752,805)
CASH FLOW FROM INVESTING ACTIVITIES			
Net investments in available for sale securities		(816,212)	(1,470,749)
Net investments in held to maturity securities		(4,888)	547,932
Dividends received		29,547	16,650
Investments in operating fixed assets		(346,363)	(411,303)
Sale proceeds from disposal of fixed assets		12,404	7,522
Net cash flow from investing activities		(1,125,512)	(1,309,948)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments against lease obligations		(2,356)	(12,364)
Investment in associate		(15,000)	-
Issue of right shares		278,000	307,328
Net cash flow from financing activities		260,644	294,964
Increase / (decrease) in cash and cash equivalents		1,844,122	(1,767,789)
Cash and cash equivalents at beginning of the year	32	1,429,195	3,196,984
Cash and cash equivalents at end of the year	32	3,273,317	1,429,195

The annexed notes 1 to 43 and Annexure - I form an integral part of these financial statements.

President and Chief Executive

Director

Director

Director

KASB BANK LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. STATUS AND NATURE OF BUSINESS

1.1 The group consists of:

- KASB Bank Limited (Holding company)
- KASB Securities Limited (wholly owned subsidiary company)
- KASB Technology Services Limited (wholly owned subsidiary company)
- New Horizon Exploration and Production Limited (indirect subsidiary company in which KASB Securities Limited holds 50 percent share holding)
- KASB Funds Limited (Associate - 30 percent share holding of the bank and 15 percent share holding of KASB Securities Limited)

1.2 KASB Bank Limited was incorporated in Lahore, Pakistan on October 13, 1994 as a public limited company under the Companies Ordinance, 1984 and received banking license from the State Bank of Pakistan (SBP) on January 9, 1995. The registered office of the bank is situated at Business and Finance Center, I.I. Chundrigar Road, Karachi. The bank obtained Certificate of Commencement of Business on January 11, 1995 and is engaged in commercial banking and related services through 35 branches operating in different cities. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges.

The financial statements of the holding company have been consolidated based on its audited financial statements for the year ended December 31, 2006 and the financial statements of the subsidiary companies have been consolidated based on their unaudited financial statements for the half year ended December 31, 2005.

1.3 In order to comply with the minimum capital requirements prescribed by the State Bank of Pakistan (SBP), the bank has decided to merge with International Housing Finance Limited (IHFL), a company in which Mr. Nasir Ali Shah Bukhari, sponsor / director of the bank holds 64.33 percent shares. The proposal for the merger with IHFL has been approved by the Board of Directors in their meeting held on October 27, 2006 and "In Principle Approval (IPA)" has been granted by SBP vide letter No. BPRD (LCGD-02)/625-79-1316/RK/2006/11977 dated December 22, 2006. Accordingly, SBP vide its letter No. BSD/SU-1/608/221/2007 dated January 26, 2007 has granted extension to the bank till March 31, 2007 to meet the minimum capital requirement of Rs. 3 billion applicable as at December 31, 2006. The remaining deficit, if any, after the proposed merger with IHFL will be met through an issue of right shares to the existing shareholders of the bank.

2. BASIS OF PRESENTATION

In accordance with the directives of the Federal Government regarding the shifting of the banking system to Islamic modes, the State Bank of Pakistan has issued various circulars from time to time. Permissible forms of trade-related modes of financing include purchase of goods by banks from their customers and immediate resale to them at appropriate mark-up in price on deferred payment basis. The purchases and sales arising under these arrangements are not reflected in these financial statements as such but are restricted to the amount of facility actually utilised and the appropriate portion of mark-up thereon.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan, the requirements of the Companies Ordinance, 1984, the Banking Companies Ordinance, 1962 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). Approved accounting standards comprise of such International Financial Reporting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or directives issued by the SECP and SBP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, Banking Companies Ordinance, 1962 or the requirements of the said directives take precedence.

3.2 The State Bank of Pakistan has deferred the applicability of International Accounting Standard (IAS) 39: "Financial Instruments: Recognition and Measurement" and International Accounting Standard (IAS) 40: "Investment Property" for banking companies through BSD Circular No. 10 dated August 26, 2002. Accordingly, the requirements of these Standards have not been considered in the preparation of these financial statements. However, investments have been classified and valued in accordance with the requirements prescribed by the State Bank of Pakistan through various circulars.

3.3 **Standards, interpretations and amendments to published approved accounting standards that are not yet effective:**

International Financial Reporting Standard (IFRS) 3 : ' Business Combinations' is applicable to the financial statements of the bank covering accounting periods beginning on or after January 1, 2007. Adoption of this standard would impact the accounting for business combinations and goodwill.

International Accounting Standard (IAS) 1 : ' Presentation of Financial Statements - Capital Disclosures' has been revised and the amendments are applicable to the financial statements of the group covering accounting periods beginning on or after January 1, 2007. Adoption of these amendments would result in an impact on the extent of disclosures presented in the future financial statements of the group.

3.4 **Standards, interpretations and amendments to published approved accounting standards that are not yet effective and not relevant for the group's operations**

The following standards, amendments and interpretations to existing approved accounting standards are effective for the bank's accounting periods beginning on or after January 1, 2007 but these are currently not relevant for the bank's operations:

IFRS 2 - Share based payment	effective from accounting periods beginning on or after January 1, 2007
IFRS 5 - Non-current assets held for sale and discontinued operations	effective from accounting periods beginning on or after January 1, 2007
IFRS 6 - Exploration for and evaluation of mineral resources	effective from accounting periods beginning on or after January 1, 2007
IFRIC 8 - Scope of IFRS 2 - share based payments	effective for accounting periods beginning on or after May 1, 2006
IFRIC 9 - Reassessment of embedded derivatives	effective for accounting periods beginning on or after June 1, 2006
IFRIC 10 - Interim financial reporting and impairment	effective for accounting periods beginning on or after November 1, 2006
IFRIC 11 - IFRS 2 - Group and treasury share transactions	effective for accounting periods beginning on or after March 1, 2007
IFRIC 12 - Services concession arrangements	effective for accounting periods beginning on or after January 1, 2008

4. **BASIS OF MEASUREMENT**

4.1 **Accounting convention**

These financial statements have been prepared under the historical cost convention, except that certain investments and commitments in respect of foreign exchange contracts have been marked to market and are carried at fair value and certain staff retirement benefits are carried at present value.

4.2 **Critical accounting estimates and judgements**

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that effect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgement in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgements were made by the management in the application of accounting policies are as follows:

- i) classification of investments (notes 5.4 and 9)
- ii) provision against investments (notes 5.4 and 9) and advances (notes 5.5 and 10.4)
- iii) income taxes (notes 5.8, 12, and 30)
- iv) depreciation / amortisation of operating fixed assets (notes 5.7, 11.2 and 11.3)
- v) amortisation of goodwill (note 5.6 and 13.1)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

The consolidated financial statements of the group include the financial statements of KASB Bank Limited (Holding company) and its subsidiary companies. Subsidiaries are those companies in which the bank directly or indirectly controls, beneficially owns or holds more than 50 percent of the voting securities or otherwise has the power to elect and appoint more than 50 percent of its directors.

The financial statements of the subsidiary companies are included in the consolidated financial statements from the date control commences until the date that control ceases. In preparing consolidated financial statements, the financial statements of the bank and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, equity, income and expenses. Significant intercompany transactions have been eliminated.

5.2 Cash and cash equivalents

Cash and cash equivalents include cash and balances with treasury banks and balances with other banks in current and deposit accounts.

5.3 Lendings to / borrowings from financial institutions

(a) Sale of securities under repurchase obligations

Securities sold subject to a repurchase agreement (repo) are retained in the financial statements as investments and the counter party liability is included in borrowings. The difference between the sale and repurchase price is recognised as mark-up expense on a time proportion basis.

(b) Purchase of securities under resale obligations

Securities purchased under an agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in lendings to financial institutions. The difference between the purchase and resale price is recognised as mark-up income on a time proportion basis.

5.4 Investments

The management determines the appropriate classification of its investments at the time of purchase and classifies these investments as held for trading, available for sale or held to maturity. These investments are initially recognised at cost, being the fair value of the consideration given including the acquisition cost.

(a) Held for trading

These are securities which are either acquired for generating a profit from short-term fluctuations in market prices, interest rate movements, dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

(b) Held to maturity

These are securities with fixed or determinable payments and fixed maturity that the group has the positive intent and ability to hold to maturity.

(c) Available for sale

These are investments that do not fall under the held for trading or held to maturity categories.

All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the group commits to purchase or sell the investment.

In accordance with the requirements of the State Bank of Pakistan (SBP), quoted securities other than those classified as held to maturity are stated at market value. Investments classified as held to maturity are carried at amortised cost.

The surplus / deficit arising on revaluation of quoted securities classified as 'available for sale' is kept in a separate account shown in the balance sheet below equity. The surplus / deficit arising on revaluation of quoted securities which are classified as 'held for trading' is taken to the profit and loss account.

Unquoted equity securities are valued at the lower of cost and break-up value. Break-up value of equity securities is calculated with reference to the net assets of the investee company as per the latest available audited financial statements.

Provision for diminution in the value of securities (except term finance certificates) is made after considering impairment, if any, in their value. Provision for diminution in the value of term finance certificates is made in accordance with the requirements of the Prudential Regulations issued by SBP.

Gain or loss on sale of investments is included in income currently.

5.5 **Advances**

Advances are stated net of specific and general provisions. The specific and general provisions for advances are made in accordance with the requirements of the Prudential Regulations and other directives issued by the State Bank of Pakistan and charged to the profit and loss account. Non-performing loans and advances in respect of which the group does not expect any recoveries in future years are written off.

Leases where the group transfers substantially all the risks and rewards incidental to the ownership of an asset are classified as finance leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments, including guaranteed residual value, if any. Unearned finance income is recognised over the term of the lease, so as to produce a constant periodic return on the outstanding net investment in lease.

5.6 **Goodwill**

Goodwill represents the difference in the cost of an acquisition over the fair value of net identifiable assets of the acquired entity at the date of acquisition. It is amortised using the straight line basis over its estimated life, not exceeding 10 years. At each balance sheet date, goodwill is reviewed for indication of impairment or changes in estimated future benefits. If such indication exists, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable or not. A write-down is made if the carrying amount exceeds the recoverable amount.

5.7 **Operating fixed assets and depreciation**

Tangible - owned

Fixed assets, other than land which is not depreciated, are stated at cost less accumulated depreciation and accumulated impairment losses (if any).

Depreciation is calculated using the straight line method in accordance with the rates specified in note 11.2 to the financial statements after taking into account residual value, if any. The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on all fixed assets is charged from the date on which an asset is put to use till the date of its disposal.

Gains / losses on disposal of fixed assets, if any, are included in profit and loss account currently.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account as and when incurred.

Tangible - leased

Fixed assets held under finance lease are stated at cost less accumulated depreciation. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability.

Depreciation on fixed assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the group.

Capital work-in-progress

Capital work-in-progress is stated at cost.

Intangibles

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets are amortised using the straight line method from the date an asset is available for use, whereby the cost of an intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the group. The useful life and amortisation method is reviewed and adjusted, if appropriate, at each balance sheet date.

Impairment

The carrying amount of assets is reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If such indication exists, and where the carrying value exceeds the estimated recoverable amount, assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

5.8 Taxation

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the year or minimum tax at the rate of 0.5 percent of turnover, whichever is higher. The charge for current tax also includes adjustments relating to prior years, if necessary, arising from assessments finalised during the year.

Deferred

Deferred tax is recognised using the balance sheet liability method on all major temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and amounts used for taxation purposes. In addition, the group also records a deferred tax asset on available tax losses. Deferred tax is calculated at the rates that are expected to apply to the periods when the differences will reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The group also recognises a deferred tax asset / liability on deficit / surplus on revaluation of securities which is adjusted against the related deficit / surplus in accordance with the requirements of International Accounting Standard (IAS) 12: 'Income Taxes'.

5.9 Staff retirement and other benefits

Defined contribution plan

The group operates a contributory provident fund for all its permanent employees to which equal contributions are made by both the group and the employees at the rate of 8.33 percent of basic salary.

Defined benefit scheme

The bank operates an approved unfunded gratuity scheme for all its permanent employees who complete the prescribed eligibility period of service. Provision is made annually to meet the cost of such gratuity benefits on the basis of actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. The actuarial gains and losses arising at each valuation date are recognised as income or expense immediately.

5.10 Provisions

Provisions are recognised when the group has a legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and are adjusted to reflect the current best estimates.

5.11 Revenue Recognition

Advances and investments

Mark-up / interest on advances and returns on investments are recognised on a time proportion basis using the effective interest method, except that mark-up / interest on non-performing advances and investments is recognised on a receipt basis in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

Financing method is used in accounting for income from lease financing. Under this method, the unearned finance income (excess of the sum of total lease rentals and estimated residual value over the cost of leased assets) is taken to income over the term of the lease so as to produce a constant periodic rate of return on the outstanding net investment in lease.

Unrealised finance income on lease is held in suspense account, where necessary, in accordance with the requirements of the Prudential Regulations issued by the State Bank of Pakistan. Gains / losses on termination of lease contracts, documentation charges, front-end fees and other lease income are recognised as income when they are realised.

Premium or discount on acquisition of debt investments is capitalised and amortised through the profit and loss account over the remaining period till maturity.

Dividend income is recognised when the group's right to receive the dividend is established.

Fees, brokerage and commission

Fees, brokerage and commission on letters of credit / guarantee and others is recognised on an accrual basis.

5.12 Foreign currencies

a) Foreign currency transactions

Transactions in foreign currencies are translated into rupees at the foreign exchange rates prevailing at the transaction date. Monetary assets and liabilities in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date. Foreign bills purchased and forward foreign exchange contracts are valued at rates determined with reference to their respective maturities.

b) Translation gains and losses

Translation gains and losses are included in the profit and loss account.

5.13 Commitments

Commitments for outstanding forward foreign exchange contracts are disclosed in the financial statements at committed amounts. Contingent liabilities / commitments for letters of credit and letters of guarantee denominated in foreign currencies are expressed in rupee terms at the rates of exchange prevailing at the balance sheet date.

5.14 Financial instruments

Financial assets and financial liabilities

Financial instruments carried on the balance sheet include cash and balances with treasury banks, balances with other banks, lendings to financial institutions, investments, advances, other assets, bills payable, borrowings, deposits, liabilities against assets subject to finance lease and other liabilities. The particular recognition methods adopted for significant financial assets and financial liabilities are disclosed in the individual policy statements associated with these assets and liabilities.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. All derivative financial instruments are carried as assets when fair value is positive and liability when fair value is negative. Any change in the fair value of derivative financial instruments is taken to the profit and loss account.

Off setting

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements when there is a legally enforceable right to set off and the group intends to either settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

5.15 Proposed dividend and transfer between reserves

During the year, the bank has changed its accounting policy relating to recognition of dividends and transfers between reserves (except transfers required by law) made subsequent to the balance sheet date. As per the new policy, dividends declared and transfers between reserves made subsequent to the balance sheet date are considered as non-adjusting events and are not recognised in the financial statements. Previously, such dividend declarations and transfers between reserves were being treated as adjusting events and were recorded as an appropriation in the financial statements of the bank. The new policy is in accordance with the requirements of IAS 10: 'Events after the Balance Sheet Date' and complies with the requirements set out in BSD Circular no. 4 dated February 17, 2006 issued by the State Bank of Pakistan. In addition, the new policy complies with the treatment specified by the Institute of Chartered Accountants of Pakistan in its Circular No. 06/2006 dated June 19, 2006. The change in accounting policy has not resulted in any change in profit / loss for the current and prior year.

5.16 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the group operates. The financial statements are presented in Pakistani Rupees, which is the group's functional and presentation currency.

5.17 Segment reporting

The group has structured its key business areas in various segments in a manner that each segment becomes a distinguishable component of the group that is engaged either in providing product or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The business segments within the group have been categorised into the following classification of business segments in accordance with the requirements of the State Bank of Pakistan.

Business segments**Corporate finance**

Corporate finance includes services provided in connection with mergers and acquisitions, underwriting, privatization, securitization, research, debts (government, high yield), equity, syndication, IPO and secondary private placements.

Trading and sales

It includes fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage debt and prime brokerage.

Retail banking

It includes retail lending and deposits, banking services, trust and estates, private lending and deposits, banking service and consumer assets.

Commercial banking

Commercial banking includes project finance, real estate, export finance, trade finance, leasing, lending, guarantees, bills of exchange and deposits.

Asset management

Asset management is management of assets on behalf of others.

Retail brokerage

Retail brokerage includes brokerage services provided to the customers.

	Note	2006 (Rupees in '000)	2005
6. CASH AND BALANCES WITH TREASURY BANKS			
In hand :			
- Local currency	6.1	365,511	344,294
- Foreign currency		67,383	29,621
With State Bank of Pakistan in:			
- Local currency current account	6.2	1,701,069	561,129
- Foreign currency current account	6.3	5,574	3,001
- Foreign currency deposit account	6.4	107,455	74,363
With National Bank of Pakistan in local currency current account		58,256	70,448
		<u>2,305,248</u>	<u>1,082,856</u>

6.1 This includes National Prize Bonds of Rs. 3.244 million (2005: Rs. 1.946 million).

6.2 The local currency current account is maintained with the State Bank of Pakistan (SBP) as per the requirements of Section 36 of the State Bank of Pakistan Act, 1956. This section requires banking companies to maintain a local currency cash reserve in a current account with SBP at a sum not less than such percentage of the bank's time and demand liabilities in Pakistan as may be prescribed by SBP.

6.3 This represents US Dollar Settlement Account maintained with SBP.

6.4 This represents foreign currency cash reserve maintained with SBP equivalent to at least 20 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme. The foreign currency cash reserve comprises of an amount equivalent to at least 5 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme, which is kept in a non-remunerative account. The balance reserve equivalent to at least 15 percent of the bank's foreign currency deposits mobilised under the FE-25 scheme is maintained in a remunerative account on which the bank is entitled to earn a return which is declared by SBP on a monthly basis. During the year, this deposit account was remunerated at rates ranging from 3.39 percent per annum to 4.39 percent per annum (2005: 1.4 percent per annum to 3.29 percent per annum).

	Note	2006 (Rupees in '000)	2005
7. BALANCES WITH OTHER BANKS			
In Pakistan			
- On current account		486,461	33,743
- On deposit account		21,105	43,074
		<u>507,566</u>	<u>76,817</u>
Outside Pakistan			
- On current account		353,458	690,651
- On deposit account	7.1	115,233	108,978
		<u>468,691</u>	<u>799,629</u>
		<u>976,257</u>	<u>876,446</u>

7.1 Deposit accounts carry mark-up at rates ranging from 4 percent per annum to 4.5 percent per annum (2005: 3.75 percent per annum to 4.00 percent per annum).

	Note	2006 (Rupees in '000)	2005
8. LENDINGS TO FINANCIAL INSTITUTIONS			
Clean placements	8.2	750,000	800,000
Repurchase agreement lendings (Reverse Repo)	8.3	1,555,232	277,546
		<u>2,305,232</u>	<u>1,077,546</u>

8.1 All lendings to financial institutions are in local currency.

8.2 Clean placements carry mark-up at rates ranging from 11.50 percent per annum to 12.80 percent per annum (2005: 10 percent per annum to 20 percent per annum) and are due to mature during the period from January 6, 2007 to April 4, 2007.

8.3 Securities held as collateral against lendings to financial institutions

These represent short-term lendings to financial institutions against investment securities. These lendings carry mark-up at rates ranging from 8.30 percent per annum to 9.00 percent per annum (2005: 8.2 percent per annum to 8.32 percent per annum) and are due to mature during the period from January 4, 2007 to February 23, 2007.

	2006			2005		
	Held by group	Further given as collateral	Total	Held by group	Further given as collateral	Total
----- (Rupees in '000) -----						
Pakistan Investment Bonds	100,000	-	100,000	-	-	-
Market Treasury Bills	1,455,232	-	1,455,232	277,546	-	277,546
	<u>1,555,232</u>	<u>-</u>	<u>1,555,232</u>	<u>277,546</u>	<u>-</u>	<u>277,546</u>

9. INVESTMENTS

9.1 Investments by types

Note	2006			2005			
	Held by group	Given as collateral	Total	Held by group	Given as collateral	Total	
----- (Rupees in '000) -----							
Held for trading securities							
Ordinary shares of listed companies	9.3	86,776	-	86,776	124,135	-	124,135
Units of Mutual Funds	9.8	14,230	-	14,230	-	-	-
		<u>101,006</u>	<u>-</u>	<u>101,006</u>	<u>124,135</u>	<u>-</u>	<u>124,135</u>
Available for sale securities							
Pakistan Investment Bonds		180,048	-	180,048	121,273	62,677	183,950
Market Treasury Bills		1,323,116	-	1,323,116	1,380,203	299,466	1,679,669
Listed Term Finance Certificates	9.6	150,544	-	150,544	154,961	-	154,961
Unlisted Term Finance Certificates	9.7	210,572	-	210,572	246,871	-	246,871
Units of Mutual Funds	9.8	1,205,000	-	1,205,000	5,000	-	5,000
Ordinary shares of listed companies	9.3	335,364	-	335,364	337,638	-	337,638
Ordinary shares of unlisted companies	9.4 & 9.5	76,706	-	76,706	57,049	-	57,049
		<u>3,481,350</u>	<u>-</u>	<u>3,481,350</u>	<u>2,302,995</u>	<u>362,143</u>	<u>2,665,138</u>
Held to maturity securities							
Federal Investment Bonds		116,751	-	116,751	127,048	-	127,048
Pakistan Investment Bonds		732,121	-	732,121	616,984	135,271	752,255
		<u>848,872</u>	<u>-</u>	<u>848,872</u>	<u>744,032</u>	<u>135,271</u>	<u>879,303</u>
Associates							
KASB Funds Limited	9.15	36,260	-	36,260	-	-	-
		<u>4,467,488</u>	<u>-</u>	<u>4,467,488</u>	<u>3,171,162</u>	<u>497,414</u>	<u>3,668,576</u>
Less: Provision for diminution in the value of investments	9.9	(5,414)	-	(5,414)	(32,276)	-	(32,276)
		<u>4,462,074</u>	<u>-</u>	<u>4,462,074</u>	<u>3,138,886</u>	<u>497,414</u>	<u>3,636,300</u>
Surplus / (deficit) on revaluation of held for trading securities	9.11	129,315	-	129,315	(4,617)	-	(4,617)
Surplus / (deficit) on revaluation of available for sale securities	21	43,815	-	43,815	11,894	(8,540)	3,354
		<u>4,635,204</u>	<u>-</u>	<u>4,635,204</u>	<u>3,146,163</u>	<u>488,874</u>	<u>3,635,037</u>

	Note	2006 (Rupees in '000)	2005
9.2 Investments by segments			
Federal Government Securities			
- Market Treasury Bills		1,323,116	1,679,669
- Pakistan Investment Bonds		912,169	936,205
- Federal Investment Bonds	9.12 & 9.13	116,751	127,048
		2,352,036	2,742,922
Fully paid-up ordinary shares			
- Listed companies	9.3	422,140	461,773
- Unlisted companies	9.4 & 9.5	76,706	57,049
		498,846	518,822
Term Finance Certificates			
- Listed	9.6	150,544	154,961
- Unlisted	9.7	210,572	246,871
		361,116	401,832
Units of Mutual Funds		1,219,230	5,000
Associate			
- KASB Funds Limited	9.15.1	36,260	-
Investments at cost		4,467,488	3,668,576
Less: Provision for diminution in the value of investments	9.9	(5,414)	(32,276)
Investments (Net of Provisions)		4,462,074	3,636,300
Surplus / (deficit) on revaluation of held for trading securities	9.11	129,315	(4,617)
Surplus / (deficit) on revaluation of available for sale securities	21	43,815	3,354
Total investments		4,635,204	3,635,037

9.3 Particulars of investments in ordinary shares of listed companies

Company Name	Number of shares held	Paid up value per share	Total paid up value	Cost	Market Value
		(Rupees)		----- (Rupees in '000) -----	
Available for sale					
- Hub Power Company Limited *	3,475,000	10	34,750	122,840	93,825
- Hum TV Network*	2,930,200	10	29,302	29,302	26,372
- Worldcom Telecom Limited	6,875,241	10	68,752	63,326	73,909
- Karachi Electric Supply Corporation	3,000,000	10	30,000	31,856	19,500
- Pakistan Oil Field Limited	100,000	10	1,000	36,490	34,975
- Maple Leaf Cement Factory Limited	68,750	10	688	1,613	1,196
- Pak Suzuki Motors	323,000	10	3,230	49,937	135,660
				335,364	385,437
Held for trading					
- Pak Suzuki Motors	473,500	10	4,735	68,629	198,870
- Oil & Gas Development Company Limited	76,400	10	764	10,460	8,763
- Karachi Electric Supply Corporation	489,000	10	4,890	2,935	3,178
- Packages Limited	22,700	10	227	4,752	4,767
				86,776	215,578

* The group's investments in 3,475,000 ordinary shares of Hub Power Company Limited and 2,930,200 ordinary shares of Hum TV Network have been classified as strategic investments under the guidelines provided in Regulation 'R-6' of the Prudential Regulations and BPD Circular Letter No. 16 dated August 1, 2006, issued by the State Bank of Pakistan.

9.4 Particulars of investments in ordinary shares of unlisted companies

Company name	Number of shares held	Paid up value per share	Break up value of investment	Based on investee's financial statements	Name of Chief Executive
------(Rupees in '000)-----					
Shareholding upto 10 percent					
Khushhali Bank Limited	10	10,000	11,029	December 31, 2005 (audited)	Mr. M Ghalib Nishtar
Pakistan Export Finance Guarantee Agency Limited	568,044	5,680	3,562	June 30, 2006 (un-audited)	Mr. S.M Zaeem
Evolve Capital Limited	3,000,000	61,026	80,532	March 31, 2005 (audited)	Mr. Khaled Al Muhairy

9.5 This includes the group's subscription towards the paid-up capital of Khushhali Bank Limited amounting to Rs.10 million (2005: Rs. 10 million). Pursuant to section 10 of the Khushhali Bank Ordinance, 2000, strategic investors (including the group) cannot sell or transfer their investment in Khushhali Bank Limited before a period of 5 years that has expired on October 10, 2005, from the date of subscription. Thereafter, such sale / transfer would be subject to prior approval of the State Bank of Pakistan. In addition, profit, if any, and other income of Khushhali Bank Limited, shall not be used to pay any dividend to the members, and shall be utilised to promote the objectives of Khushhali Bank Limited.

9.6 Particulars of investments in listed Term Finance Certificates

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Market value	Name of Chief Executive
		------(Rupees)-----		------(Rupees in '000)-----		
- World Call Communication	1,424	5,000	1,428	2,033	2,338	Mr. Salman Taseer
- Security Leasing Corporation Limited	5,000	5,000	3,750	18,750	20,056	Mr. M. Khalid Ali
- Azgard Nine Limited	5,000	5,000	3,750	18,750	18,750	Mr. Ahmed Humayun Shaikh
- United Bank Limited	16,232	5,000	5,000	81,153	81,153	Mr. Atif R. Bukhari
- Chanda Oil and Gas Company Limited.	4,000	5,000	4,340	17,360	17,360	Mr. Liaqat Ali Naz
- Al-Noor Sugar Mills	5,000	5,000	2,500	12,498	12,498	Mr. Ismail H. Zakaria
				<u>150,544</u>	<u>152,155</u>	

9.7 Particulars of investments in unlisted Term Finance Certificates

Company name	Number of certificates held	Face value per certificate	Unredeemed face value per certificate	Cost	Name of Chief Executive
		------(Rupees)-----		(Rupees in '000)	
- New Khan Transport	28,000	5,000	4,039	113,077	Mr. Humair Hayat Khan Rokhri
- Gharibwal Cement	10,000	5,000	5,000	50,000	Mr. M. Tauif Peracha
- Tandilianwala Sugar Mills	5,000	5,000	4,500	22,500	Mr. Haroon Akhtar Khan
- Mobilink	5,000	5,000	4,999	24,995	Mr. Zouhair Khaliq
				<u>210,572</u>	

9.8 Particulars of investments in units of Mutual Funds

Mutual Fund	Number of units held	Face value per unit	Cost	Market Value
Available for sale				
- NAFA Cash Fund	38,019,200	10	400,000	400,091
- KASB Liquid Fund	2,534,962	100	250,000	265,563
- Askari Income Fund	3,297,221	100	350,000	350,363
- AMZ Plus Income Fund	941,534	100	100,000	100,096
- Dawood Money Market Fund	949,898	100	100,000	100,086
- UTP Funds of Funds	107,949	50	5,000	5,299
			<u>1,205,000</u>	<u>1,221,498</u>
Held for trading				
- AKD Opportunity Fund	96,805	50	4,230	4,618
- Al Meezan Islamic Income Fund	100,000	50	5,000	5,000
- WE Balanced Fund	500,000	10	5,000	5,125
			<u>14,230</u>	<u>14,743</u>

	2006		2005	
	(Rupees in '000)			
9.9 Particulars of provision for diminution in the value of investments				
Opening balance at January 1		32,276		891
Charge for the year		310		31,385
Reversals during the year		(27,172)		-
Net (reversal) / charge for the year		(26,862)		31,385
Closing balance at December 31		5,414		32,276
9.9.1 Particulars of provision for diminution in the value of investments - by type and segment				
Available for sale				
Term Finance Certificates - unlisted		3,296		30,468
Fully paid-up ordinary shares - unlisted		2,118		1,808
		5,414		32,276
9.10 Quality of available for sale securities				
	2006		2005	
	Amount	Rating	Amount	Rating
Pakistan Investment Bonds	156,315	Baa2	161,985	Baa2
Market Treasury Bills	1,322,482	Baa2	1,680,125	Baa2
Term Finance Certificates - listed				
- World Call Communication	2,338	AA-	4,676	AA-
- Securitel SPV Limited	-	-	694	A
- First Oil and Gas Securitisation Company Limited	-	-	18,478	A
- Security Leasing Corporation Limited	20,056	Unrated	-	-
- Azgard Nine Limited	18,750	A+	-	-
- United Bank Limited	81,153	AA-	81,157	AA-
- Sui Southern Gas Company Limited	-	-	9	AA
- Chanda Oil and Gas Company Limited	17,360	A	19,120	A
- Al-Noor Sugar Mills	12,498	A-	24,990	A-
	152,155		149,124	
Term Finance Certificates - unlisted				
- New Khan Transport	113,077	Unrated	121,871	Unrated
- Tandilianwala Sugar Mills	22,500	Unrated	25,000	Unrated
- Gharibwal Cement	50,000	A-	-	-
- Security Leasing Corporation Limited	-	-	25,000	Unrated
- Azgard Nine Limited	-	-	25,000	A+
- Mobilink	24,995	AA-	50,000	AA-
	210,572		246,871	
Units of Mutual Funds				
- NAFA Cash Fund	400,091	A(F)	-	-
- KASB Liquid Fund	265,563	Unrated	-	-
- Askari Income Fund	350,363	Unrated	-	-
- AMZ Plus Income Fund	100,096	A(F)	-	-
- Dawood Money Market Fund	100,086	5 star	-	-
- UTP Funds of Funds	5,299	Unrated	5,598	Unrated
	1,221,498		5,598	
Ordinary shares of listed companies	385,437	Unrated	367,740	Unrated
Ordinary shares of unlisted companies	76,706	Unrated	57,049	Unrated
Total	3,525,165		2,668,492	

		2006	2005
		(Rupees in '000)	
9.11	Unrealised gain / (loss) on revaluation of investments classified as held for trading		
	Ordinary shares / units of listed companies / mutual funds		
	Pak Suzuki Motors	130,241	-
	DG Khan Cement	-	(27)
	Dewan Farooq Motors Limited	-	(43)
	World Call Telecom Limited	-	(822)
	PICIC Energy Fund Limited	-	125
	Oil and Gas Development Co. Limited	(1,697)	-
	Southern Electric Power Co. Limited	-	264
	Sui Southern Gas Co. Limited	-	(4,114)
	Karachi Electric Supply Corporation Packages Limited	243	-
	AKD Opportunity Fund	15	-
	AI Meezan Islamic Income Fund	388	-
	WE Balanced Fund	-	-
		125	-
		<u>129,315</u>	<u>(4,617)</u>

- 9.12 This includes securities having a face value of Rs.Nil (2005: Rs.Nil million) pledged with the State Bank of Pakistan as security to facilitate T.T discounting facility to branches of the bank.
- 9.13 Federal Investment Bonds and Pakistan Investment Bonds are eligible for discounting with the State Bank of Pakistan.
- 9.14 Significant particulars relating to government securities and term finance certificates are as follows:

Particulars of investment	Maturity	Principal payments	Coupon rate / Discount rate	Coupon payments
Market Treasury Bills	January 2007 to December 2007	On maturity	8.06% to 8.24%	Not applicable
Federal Investment Bonds	December 2007 to March 2008	On maturity	15%	Semi annually
Pakistan Investment Bonds	October 2011 to October 2013	On maturity	8% to 13%	Semi annually
Term Finance Certificates	June 2007 to May 2013	Various	6.5% to 14.5%	Various

9.15 **Investment in associate**

- 9.15.1 During the year KASB Funds Limited increased its share capital by Rs 70,000,000 through issue of 7,000,000 ordinary shares of Rs 10 each, to new shareholders, due to which the share holding of KASB Bank Limited in KASB Funds Limited decreased from 100 percent to 30 percent. Therefore, the status of KASB Funds Limited has changed from a subsidiary of the group's parent to an associate effective from July 29, 2006.

At December 31, 2006, KASB Bank Limited owns 30 percent shares of KASB Funds Limited, while a wholly owned subsidiary of KASB Bank Limited, namely KASB Securities Limited holds 15 percent shares of KASB Funds Limited. Accordingly the group's share in the associate at December 31, 2006 is 45 percent.

	2006	2005
	(Rupees in '000)	
Particulars of investment in associate		
Cost of investment at the date of dilution	30,000	-
Accumulated loss upto the date of dilution	(14,633)	-
Share in net assets on the date of dilution	<u>15,367</u>	-
Further investment of the group at the date of dilution	15,000	-
Gain on deemed disposal	8,048	-
Share in net assets after dilution	<u>38,415</u>	-
Share of (loss) after dilution	<u>(2,155)</u>	-
	<u>36,260</u>	-

10. ADVANCES	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
Loans, cash credits, running finances, etc. - in Pakistan		12,147,033	8,568,962
Net investment in finance lease - in Pakistan	10.2	1,643,279	1,737,592
Bills discounted and purchased (excluding government treasury bills)			
- Payable in Pakistan		168,093	82,808
- Payable outside Pakistan		210,845	172,456
		<u>378,938</u>	<u>255,264</u>
		14,169,250	10,561,818
Financing in respect of Continuous Funding System (CFS)		1,015,437	791,835
		<u>15,184,687</u>	<u>11,353,653</u>
Provision for advances - specific	10.4	(693,484)	(654,463)
- general	10.4	(1,577)	(3,870)
		<u>(695,061)</u>	<u>(658,333)</u>
		<u>14,489,626</u>	<u>10,695,320</u>
10.1 Particulars of advances (Gross)			
10.1.1 In local currency		14,278,781	10,522,864
In foreign currencies		210,845	172,456
		<u>14,489,626</u>	<u>10,695,320</u>
10.1.2 Short-term		11,429,969	8,443,213
Long-term		3,059,657	2,252,107
		<u>14,489,626</u>	<u>10,695,320</u>
10.2 Net investment in finance lease			

	2006				2005			
	Not later than one year	Later than one and less than five years	Over five years	Total	Not later than one year	Later than one and less than five years	Over five years	Total
	(Rupees in '000)							
Lease rentals receivable	730,119	888,134	32,518	1,650,771	798,869	881,045	-	1,679,914
Residual value	47,607	159,400	30,616	237,623	44,931	162,752	-	207,683
Minimum lease payments	777,726	1,047,534	63,134	1,888,394	843,800	1,043,797	-	1,887,597
Finance charge for future periods	(103,358)	(140,812)	(945)	(245,115)	(82,176)	(67,829)	-	(150,005)
Present value of minimum lease payments	<u>674,368</u>	<u>906,722</u>	<u>62,189</u>	<u>1,643,279</u>	<u>761,624</u>	<u>975,968</u>	-	<u>1,737,592</u>

10.3 Advances include Rs.1,016.710 million (2005: Rs. 1,070.433 million) which have been placed under non-performing status as detailed below:

Category of classification	2006				
	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	36,641	-	36,641	9,161	9,161
Doubtful	149,633	-	149,633	56,959	56,959
Loss	830,436	-	830,436	627,364	627,364
	<u>1,016,710</u>	-	<u>1,016,710</u>	<u>693,484</u>	<u>693,484</u>
	2005				
Category of classification	Domestic	Overseas	Total	Provision required	Provision held
	(Rupees in '000)				
Substandard	96,320	-	96,320	23,980	23,980
Doubtful	403,681	-	403,681	154,339	154,339
Loss	570,432	-	570,432	476,144	476,144
	<u>1,070,433</u>	-	<u>1,070,433</u>	<u>654,463</u>	<u>654,463</u>

10.4 Particulars of provision against non-performing advances

Note	2006			2005		
	Specific	General	Total	Specific	General	Total
	----- (Rupees in '000) -----					
Opening balance at January 1	654,463	3,870	658,333	194,452	3,922	198,374
Charge for the year	408,110	-	408,110	486,613	-	486,613
Reversals	(337,668)	(2,293)	(339,961)	(22,837)	(52)	(22,889)
Net charge / (reversal)	70,442	(2,293)	68,149	463,776	(52)	463,724
Amounts written off	(31,421)	-	(31,421)	(3,765)	-	(3,765)
Closing balance at December 31	693,484	1,577	695,061	654,463	3,870	658,333

10.4.1 General provision against consumer loans represents provision maintained at an amount equal to 1.5 percent of the fully secured regular portfolio of consumer loans and 5 percent of the unsecured regular portfolio of consumer loans as per the requirements of the Prudential Regulations issued by the State Bank of Pakistan.

10.4.2 Particulars of provisions against non-performing advances

	2006		2005	
	Specific	General	Specific	General
In local currency	693,484	1,577	654,463	3,870
In foreign currencies	-	-	-	-
	693,484	1,577	654,463	3,870

10.5 Particulars of write offs

	Note	2006	2005
		(Rupees in '000)	
10.5.1 Against provisions	10.4	31,421	3,765
Directly charged to the profit and loss account		-	-
		31,421	3,765
10.5.2 Write offs of Rs. 500,000 and above	10.6	29,371	3,765
Write offs of below Rs. 500,000		2,050	-
		31,421	3,765

10.6 Details of loan write offs of Rs 500,000 and above

In terms of sub-section (3) of section 33A of the Banking Companies Ordinance, 1962, the statement in respect of written-off loans or any other financial relief of five hundred thousand rupees or above allowed to a person(s) during the year ended December 31, 2006 is given at Annexure - I to these financial statements. However, the write off of loans does not affect the bank's right to recover the outstanding loans from these customers.

10.7 Particulars of loans and advances to executives, directors, associated companies etc.

	2006	2005
	(Rupees in '000)	
Debts due by directors, executives or officers of the group or any of them either severally or jointly with any other persons*		
Balance at beginning of the year	7,296	21,864
Loans granted during the year	179,971	18,904
Repayments during the year	161,433	33,472
Balance at end of the year	25,834	7,296
Debts due by companies or firms in which the directors of the group are interested as directors, partners or in the case of private companies as members		
Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments during the year	-	-
Balance at end of the year	-	-
Debts due by controlled firms, managed modarabas and other related parties		
Balance at beginning of the year	-	-
Loans granted during the year	-	-
Repayments during the year	-	-
Balance at end of the year	-	-
	25,834	7,296

* These include loans given to employees as per the terms of their employment.

	Note	2006 (Rupees in '000)	2005
11. OPERATING FIXED ASSETS			
Capital work-in-progress	11.1	214,058	187,499
Tangible fixed assets	11.2	669,477	475,017
Intangibles	11.3	31,862	39,185
		<u>915,397</u>	<u>701,701</u>
11.1 Capital work-in-progress			
Civil works		134,699	64,314
Advances to suppliers and contractors		79,359	123,185
		<u>214,058</u>	<u>187,499</u>

11.2 Tangible fixed assets

	COST				DEPRECIATION				Book value at December 31, 2006	Rate of Depreciation %
	As at January 1, 2006	Additions/ Transfers*	Deletions / Adjustments*	As at December 31, 2006	As at January 1, 2006	Charge for the year	Deletions / Adjustments* / Transfers**	As at December 31, 2006		
(Rupees in 000)										
Bank premises	212,242	149,123	-	361,365	40,901	12,436	-	53,337	308,028	5
Furniture & fixtures	165,087	48,319 293 *	(273) (200) ** (161) ***	213,065	69,135	17,709	(255) (8) *** 10 *	86,591	126,474	10
Motor vehicles	77,119	23,094 6,189 ****	(17,517) (663) ***	88,222	19,660	12,247	(9,563) (26) *** 2,985 ****	25,303	62,919	20
Electrical, office and computer equipment	333,562	81,931 23,493 1,681 * 4,841 ****	(3,777) (2,649) ***	439,082	203,592	63,374	(3,597) (649) 23,493 4,841 68 *	291,122	147,960	20-33.33
	<u>788,010</u>	<u>302,467</u> <u>36,497</u>	<u>(21,567)</u> <u>(3,673)</u>	<u>1,101,734</u>	<u>333,288</u>	<u>105,766</u>	<u>(13,415)</u> <u>30,714</u>	<u>456,353</u>	<u>645,381</u>	
Assets held under finance lease										
Motor vehicles	24,265	17,071 (3,466) (6,189) ****	(2,620)	29,061	7,723	3,780	(1,646) (416) *** (2,985) ****	6,456	22,605	20
Electrical, office and computer equipment	43,052	- (23,493) **** (4,841) ****	-	14,718	39,299	2,262	- (4,841) **** (23,493) ****	13,227	1,491	20-33.33
	<u>67,317</u>	<u>17,071</u> <u>(37,989)</u>	<u>(2,620)</u> <u>-</u>	<u>43,779</u> <u>-</u>	<u>47,022</u> <u>-</u>	<u>6,042</u> <u>-</u>	<u>(1,646)</u> <u>(31,735)</u>	<u>19,683</u>	<u>24,096</u>	
Total	<u>855,327</u>	<u>319,538</u> <u>(1,492)</u>	<u>(24,187)</u> <u>(3,673)</u>	<u>1,145,513</u>	<u>380,310</u>	<u>111,808</u> <u>-</u>	<u>(15,061)</u> <u>(1,021)</u>	<u>476,036</u>	<u>669,477</u>	

* Amount relates to New Horizon Exploration and Production Limited, a subsidiary of the group.

** Amount relates to computer software which was previously shown under the head of furniture and fixtures.

*** Amount relates to KASB Funds Limited which becomes an associate from subsidiary during the year.

**** Transfer from leased to owned assets.

	2005									
	COST				DEPRECIATION				Book value at December 31, 2005	Rate of Depreciation %
	As at January 1, 2005	Additions/ Transfers*	Deletions	As at December 31, 2005	As at January 1, 2005	Charge for the year	Deletions/ Transfers*	As at December 31, 2005		
(Rupees in 000)										
Bank premises	134,822	77,420	-	212,242	33,257	7,644	-	40,901	171,341	5
Furniture and fixtures	115,216	50,447	(576)	165,087	57,477	12,032	(374)	69,135	95,952	10
Motor vehicles	38,915	41,003 6,173	(8,972)	77,119	19,439	5,315	(8,338) 3,244	19,660	57,459	20
Electrical, office and computer equipment	296,892	40,599 2,272	(6,201)	333,562	168,493	38,262	(5,360) 2,197	203,592	129,970	20-33.33
	<u>585,845</u>	<u>209,469</u> <u>8,445</u>	<u>(15,749)</u>	<u>788,010</u>	<u>278,666</u>	<u>63,253</u>	<u>(14,072)</u> <u>5,441</u>	<u>333,288</u>	<u>454,722</u>	
Assets held under finance lease										
Motor vehicles	17,737	12,701 (6,173)	-	24,265	8,963	2,004	- (3,244)	7,723	16,542	20
Electrical, office and computer equipment	44,354	970 (2,272)	-	43,052	27,650	13,846	- (2,197)	39,299	3,753	20-33.33
	<u>62,091</u>	<u>13,671</u> <u>(8,445)</u>	<u>-</u>	<u>67,317</u>	<u>36,613</u>	<u>15,850</u>	<u>-</u> <u>(5,441)</u>	<u>47,022</u>	<u>20,295</u>	
Total	<u>647,936</u>	<u>223,140</u>	<u>(15,749)</u>	<u>855,327</u>	<u>315,279</u>	<u>79,103</u>	<u>(14,072)</u>	<u>380,310</u>	<u>475,017</u>	

11.3 Intangibles

	COST				AMORTISATION				Book value at December 31, 2006	Rate of Amortisation %
	As at January 1, 2006	Additions	Deletion / Transfers *	As at December 31, 2006	As at January 1, 2006	Amortisation	Deletion / Transfers*	As at December 31, 2006		
	(Rupees in 000)									
Computer software	35,740	2,890 1,947 * 200 **	- (2,850) ***	37,927	8,754	9,639	- 107 * (236) ***	18,264	19,663	20-33.33
Membership cards, rooms and booths at KSE	12,199	-	-	12,199	-	-	-	-	12,199	-
	<u>47,939</u>	<u>2,890</u> <u>2,147</u>	<u>(2,850)</u>	<u>50,126</u>	<u>8,754</u>	<u>9,639</u>	<u>-</u> <u>(129)</u>	<u>18,264</u>	<u>31,862</u>	
2005	<u>22,440</u>	<u>25,499</u>	<u>-</u>	<u>47,939</u>	<u>7,296</u>	<u>1,458</u>	<u>-</u>	<u>8,754</u>	<u>39,185</u>	

* Amount relates to New Horizon Exploration and Production Limited, a subsidiary of the group.

** Amount relates to computer software which was previously shown under the head of furniture and fixtures

*** Amount relates to KASB Funds Limited. The status of KASB Funds Limited changed from a subsidiary to an associate during the current year.

	2006	2005
	(Rupees in '000)	
11.4 Carrying amount of temporarily idle properties	Nil	Nil
11.5 The cost of fully depreciated assets that are still in use:		
Furniture and fixtures	27,821	5,999
Electrical, office and computer equipment	137,042	98,437
Motor vehicles	1,857	7,962
Computer software	8,242	5,819
11.6 The carrying amount of tangible fixed assets that have retired from active use and are held for disposal	Nil	Nil

11.7 Disposals of operating fixed assets during the year

The details of disposals of operating fixed assets whose original cost or book value exceeds one million rupees or two hundred and fifty thousand rupees respectively, whichever is lower, are given below:

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds/ Insurance claim	Mode of disposal	Particulars of purchaser
------(Rupees ' 000)-----						
Furniture and fixtures						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	214	202	12	7	Negotiation	Various
	59	53	6	-	Write off	
	273	255	18	7		
Electrical, office and computer equipment						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	3,564	3,483	81	873	Negotiation	Various
	213	114	99		Write off	
	3,777	3,597	180	873		
Motor vehicles						
Items having book value of less than Rs 250,000 or cost of less than Rs 1,000,000	6591	6316	275	3028	Auction	Various
Items having book value of more than Rs 250,000 and cost of less than Rs 1,000,000						
KIA Spectra	759	302	457	162	Auction	Rafat Ali (third party)
KIA Spectra	759	465	294	122	Auction	Syed Sadiq Ali (third party)
KIA Spectra	759	455	304	210	Auction	Manzoor Hussain (third party)
KIA Spectra	759	465	294	233	Auction	Saeed-ur-Rehman (third party)
KIA Spectra	759	465	294	227	Auction	Saeed-ur-Rehman (third party)
Toyota Corolla GLI	962	657	305	705	Negotiation	Asim Hameed Arain (third party)
Toyota Corolla GLI	939	642	297	488	Negotiation	Naz Khan (related party)
Toyota Corolla	662	14	648	720	Negotiation	Faysal Bank Limited (third party)
Suzuki Cultus	525	11	514	510	Negotiation	Faysal Bank Limited (third party)
Honda Citi	789	17	772	815	Negotiation	Faysal Bank Limited (third party)
Honda Citi	819	18	801	750	Negotiation	Faysal Bank Limited (third party)
Toyota Land Cruiser	2,358	1,164	1,194	1,000	Insurance Claim	Syed Riaz Ahmed (third party)
Toyota Corolla	879	11	868	879	Negotiation	Standard Chartered Modaraba (third party)
Honda Citi	815	19	796	800	Insurance Claim	EFU General Insurance (third party)
Honda Civic EXI	1,003	188	815	875	Negotiation	Bank Al-Falah Limited (third party)
	20,137	11,209	8,928	11,524		
2006	24,187	15,061	9,126	12,404		
2005	15,749	14,072	1,677	7,522		

	2006	2005
	(Rupees in '000)	
12. DEFERRED TAX ASSETS - NET		
Deferred debits arising due to:		
Deficit on revaluation of securities	8,528	7,528
Provision for diminution in the value of investments	3,565	12,966
Provision against non-performing loans and advances	20,788	62,490
Provision for compensated absences	2,905	3,661
Provision against other assets	1,647	1,516
Minimum tax	19,260	12,762
Unused tax losses (including unabsorbed depreciation)	777,450	516,481
	<u>834,143</u>	<u>617,404</u>
Deferred credits arising due to:		
Reversal of accelerated tax depreciation	(68,885)	(36,511)
Liabilities against assets subject to finance lease	(615)	2,720
Net investment in finance leases	(226,376)	(199,867)
	<u>(295,876)</u>	<u>(233,658)</u>
	<u>538,267</u>	<u>383,746</u>

- 12.1 The deferred tax asset recognised in these financial statements represents the management's best estimate of the probable benefit which is expected to be realised in future years in the form of reduced tax liability as the group would be able to set off the profits earned in these years against losses carried forward from current and prior years.

	Note	2006	2005
		(Rupees in '000)	
13. OTHER ASSETS			
Income / mark-up accrued in local currency		385,725	258,693
Income / mark-up accrued in foreign currencies		-	-
Advances, deposits, advance rent and other prepayments		139,563	84,998
Taxation (payments less provisions)		57,571	21,656
Stationery and stamps in hand		8,996	8,703
Branch adjustment account		-	236
Goodwill	13.1	155,544	174,288
Unrealised gain on forward foreign exchange contracts		3,170	7,289
Stock-in-trade		-	327
Trade debts - unsecured - considered good		1,579	3,308
Long term deposits		7,156	3,118
Share application money		-	2,500
Receivable from brokers against sale of listed equity securities		846,671	1,426,100
Dividend receivable		525	-
Others		<u>6,428</u>	<u>32,274</u>
		<u>1,612,928</u>	<u>2,023,490</u>
Provision held against other assets	13.2	<u>(4,707)</u>	<u>(4,948)</u>
Other assets - net of provision		<u>1,608,221</u>	<u>2,018,542</u>

	Note	2006 (Rupees in '000)	2005
13.1 Goodwill			
Goodwill recognised on acquisition of investment segment of KASB & Co.		256,564	256,564
Goodwill recognised on amalgamation of KASB Leasing Limited		(4,174)	(4,174)
Goodwill recognised on acquisition of New Horizon Exploration and Production Limited		3,632	-
Negative goodwill on acquisition of KASB Technology Services Limited		(10,139)	(10,139)
		<u>245,883</u>	<u>242,251</u>
Amortisation to date		(90,339)	(67,963)
		<u>155,544</u>	<u>174,288</u>
13.2 Provision against other assets			
Opening balance at January 1		4,948	4,332
Charge for the year		375	616
Reversals during the year		(616)	-
Amounts written off		-	-
Closing balance at December 31		<u>4,707</u>	<u>4,948</u>
14. CONTINGENT ASSETS			
There were no contingent assets of the group as at December 31, 2006.			
15. BILLS PAYABLE			
These represent bills payable in Pakistan.			
16. BORROWINGS			
In Pakistan		2,167,844	1,790,727
Outside Pakistan		8,188	335,414
		<u>2,176,032</u>	<u>2,126,141</u>
16.1 Particulars of borrowings			
In local currency		2,167,844	1,790,727
In foreign currencies		8,188	335,414
		<u>2,176,032</u>	<u>2,126,141</u>
16.2 Details of borrowings secured / unsecured			
Secured			
Borrowings from the State Bank of Pakistan under export refinance scheme	16.2.1	1,869,541	1,151,850
Borrowings from the State Bank of Pakistan under Long Term Finance (LTF) scheme	16.2.2	298,303	-
Repurchase agreement borrowings		-	444,184
Short term borrowings		-	194,693
		<u>2,167,844</u>	<u>1,790,727</u>
Unsecured			
Call money borrowing		-	-
Overdrawn nostro accounts		8,188	335,414
		<u>2,176,032</u>	<u>2,126,141</u>

- 16.2.1 The bank has entered into an agreement with the State Bank of Pakistan (SBP) for extending export finance to its customers. As per the agreement, the bank has granted SBP the right to recover the outstanding amount from the bank at the date of maturity of the finances by directly debiting the current account maintained by the bank with SBP. Borrowing from SBP under the export refinance scheme is secured by the bank's cash and security balances held by SBP. These borrowings carry mark-up at the rate of 6.5 percent per annum to 7.5 percent per annum (2005 : 3.5 percent per annum to 7.5 percent per annum) payable on a quarterly basis.
- 16.2.2 These borrowings have been made from SBP for providing financing facilities to customers for import of machinery, plant, equipment and accessories thereof (not manufactured locally) by export oriented units.

		2006	2005
		(Rupees in '000)	
17.	DEPOSITS AND OTHER ACCOUNTS		
	Customers		
	Remunerative		
	Fixed deposits	7,408,694	4,241,215
	Savings deposits	7,000,296	6,180,330
		<u>14,408,990</u>	<u>10,421,545</u>
	Non-remunerative		
	Current accounts	3,171,036	2,800,997
	Margin deposits	447,240	279,580
		<u>3,618,276</u>	<u>3,080,577</u>
		<u>18,027,266</u>	<u>13,502,122</u>
	Financial institutions		
	Remunerative deposits		
	Savings deposits	561,874	366,478
	Term deposits	2,600,000	800,000
	Non-remunerative deposits		
	Current accounts	2,340	31,657
		<u>3,164,214</u>	<u>1,198,135</u>
		<u>21,191,480</u>	<u>14,700,257</u>
17.1	Particulars of deposits and other accounts		
	In local currency	20,641,612	14,367,181
	In foreign currencies	549,868	333,076
		<u>21,191,480</u>	<u>14,700,257</u>

18. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2006			2005		
	Minimum lease payments	Finance charges for future periods	Principal outstanding	Minimum lease payments	Finance charges for future periods	Principal outstanding
	----- (Rupees in '000) -----					
Not later than one year	11,718	1,862	9,856	12,200	1,451	10,749
Later than one year and not later than five years	9,974	851	9,123	9,015	928	8,087
	<u>21,692</u>	<u>2,713</u>	<u>18,979</u>	<u>21,215</u>	<u>2,379</u>	<u>18,836</u>

The group has entered into various lease agreements with leasing companies and modarabas for the lease of equipment and vehicles. Lease rentals include financial charges ranging between 8.31 percent per annum to 16.5 percent per annum (2005: 9.14 percent per annum to 16.5 percent per annum) which has been used as a discounting factor. The lease rentals are payable in monthly installments by August 2009. The group has the option to purchase the assets upon completion of the lease period and has the intention to exercise the option.

19. OTHER LIABILITIES	Note	2006 (Rupees in '000)	2005
Mark-up / return / interest payable in local currency		224,904	99,827
Mark-up / return / interest payable in foreign currency		285	-
Advance against leases		18,572	-
Accrued expenses		84,815	79,767
Branch adjustment account		53,526	-
Security deposits against leases	19.1	237,546	207,750
Provision for compensated absences	19.2	8,301	10,461
Provision for gratuity		20,763	-
Payable to broker against purchase of shares		6,171	1,150,637
Payable to brokers against purchase of listed equity securities		116,830	-
Taxation payable		19,180	-
Dividend payable		-	-
Unclaimed dividend		609	613
Advances from customers		(4,235)	-
Creditors		920,960	19,629
Loans from director		73,896	73,896
Others		42,704	36,100
		<u>1,824,827</u>	<u>1,678,680</u>

19.1 These represent interest free security deposits received from lessees against lease contracts and are adjustable against residual value of leased assets at the expiry of the respective lease terms.

19.2 This represents provision for compensated absences made in respect of the liability of the bank towards leaves accumulated by its employees upto December 31, 2005. The provision has been determined on the basis of basic salaries of employees for the month of December 2005 pursuant to the decision of the management to freeze this benefit as at December 31, 2005.

20. SHARE CAPITAL

Authorised

2006 (Number of shares)	2005		2006 (Rupees in '000)	2005
<u>400,000,000</u>	<u>400,000,000</u>	Ordinary shares of Rs. 10 each	<u>4,000,000</u>	<u>4,000,000</u>
Issued, subscribed and paid up				
149,923,856	91,391,022	Ordinary shares of Rs. 10 each fully paid in cash	1,499,238	913,910
11,600,000	11,600,000	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	116,000	116,000
89,001,900	89,001,900	Ordinary shares of Rs. 10 each issued on amalgamation of investment segment of KASB & Co.	890,019	890,019
8,834,942	8,834,942	Ordinary shares of Rs. 10 each issued on amalgamation of KASB Leasing	88,349	88,349
(30,089,900)	(30,089,900)	Ordinary shares of Rs. 10 each of the bank cancelled (previously held by KASB & Co.)	(300,899)	(300,899)
-	30,732,834	Right shares of Rs 10 each subscribed but not yet issued	-	307,328
<u>229,270,798</u>	<u>201,470,798</u>		<u>2,292,707</u>	<u>2,014,707</u>

20.1 The movement in the issued, subscribed and paid-up capital during the year is as follows:

	Number of shares	Amount (Rupees in '000)
Opening balance at January 1	201,470,798	2,014,707
Right shares subscribed in the prior year but issued in the current year	(30,732,834)	(307,328)
Right shares issued during the year	58,532,834 *	585,328
Closing balance at December 31	<u>229,270,798</u>	<u>2,292,707</u>

* include right shares subscribed in the prior year but issued during the current year.

20.2 Related parties of the bank, namely Mr. Nasir Ali Shah Bukhari, Mrs. Ambreen Bukhari, Master Mahmood Ali Shah Bukhari, Mr. H. U. Beg, Mr. Sohail Wajahat H. Siddiqui, Mr. Tariq M. Rangoonwala, Mr. N.K. Shahani, Ms. Mubashira Bukhari, Mr. Irtiza Hussain and Mr. Munir Kamal respectively hold 56,415,951 (2005: 23,860,134), 9,452,173 (2005: 8,012,173), 9,440,000 (2005: 8,000,000), 707,623 (2005: 599,681), 778 (2005: 660), 3,327 (2005: 2,820), 3,000 (2005: Nil), 9,440,000 (2005: 8,000,000), 500 (2005: Nil), 500 (2005: Nil) shares of Rs 10/- each of the bank as at December 31, 2006.

20.3 The State Bank of Pakistan required all commercial banks to raise their paid-up capital (net of losses) to minimum limits as prescribed in BSD Circular No. 6 dated October 28, 2005. As per the requirements, the minimum paid-up capital (net of losses) requirement for locally incorporated banks has been raised to Rs 6 billion (net of losses), to be achieved in a phased manner by December 31, 2009. The minimum paid-up capital requirement (net of losses) to be achieved by December 31, 2006 is Rs 3 billion. The paid-up capital of the bank as at December 31, 2006 amounts to Rs 2,293 million and the bank has accumulated losses of Rs 163.156 million as at that date.

As mentioned in note 1.3 to the financial statements, in order to comply with the minimum capital requirements prescribed by the State Bank of Pakistan (SBP), the bank has decided to merge with International Housing Finance Limited (IHFL), a company in which Mr. Nasir Ali Shah Bukhari, sponsor / director of the bank holds 64.33 percent shares. The proposal for the merger with IHFL has been approved by the Board of Directors in their meeting held on October 27, 2006 and "In Principle Approval (IPA)" has been granted by SBP vide letter No. BPRD (LCGD-02)/625-79-1316/RK/2006/11977 dated December 22, 2006. Accordingly, SBP vide its letter No. BSD/SU-1/608/221/2007 dated January 26, 2007 has granted extension to the bank till March 31, 2007 to meet the minimum capital requirement of Rs 3 billion applicable as at December 31, 2006. The remaining deficit, if any, after the proposed merger with IHFL will be met through an issue of right shares to the existing shareholders of the bank.

	2006	2005
	(Rupees in '000)	
21. DEFICIT ON REVALUATION OF SECURITIES - NET OF TAX		
21.1 (Deficit) / surplus on revaluation of available for sale securities		
Federal Government securities	(24,367)	(21,509)
Term Finance Certificates - listed	1,611	(5,837)
Units of Mutual Funds	16,498	-
Ordinary shares - listed	50,073	30,700
	43,815	3,354
Related deferred tax asset	8,528	7,528
	<u>52,343</u>	<u>10,882</u>
22. CONTINGENCIES AND COMMITMENTS		
22.1 Direct credit substitutes		
Acceptances	2,116,691	1,114,890
22.2 Transaction-related contingent liabilities		
Guarantees issued favouring:		
- Government	26,967	36,367
- Others	3,006,817	1,806,035
	3,033,784	1,842,402
22.3 Trade-related contingent liabilities		
Letters of credit	2,822,946	2,236,350

22.4 Taxation matters have been disclosed in note 30.2 to these financial statements.

	Note	2006 (Rupees in '000)	2005
22.5 Commitments in respect of forward exchange contracts			
Purchase			
From the State Bank of Pakistan		8,585	9,005
From other banks		30,440	1,170,709
From other customers		24,822	26,247
		<u>63,847</u>	<u>1,205,961</u>
Sale			
To banks		291,285	1,446,224
To customers		12,620	3,192
		<u>303,905</u>	<u>1,449,416</u>
		367,752	2,655,377
22.6 Commitments for the acquisition of operating fixed assets		184,763	153,285
23 MARK-UP / RETURN / INTEREST EARNED			
On loans and advances			
- Customers		1,212,242	790,201
- Financial institutions		26,270	20,877
On investments in:			
- available for sale securities		235,872	137,725
- held to maturity securities		75,045	44,002
On deposits with financial institutions		100,286	22,931
On securities purchased under resale agreements		39,286	26,189
On call money lending		8,416	1,851
On listed equity securities purchased under resale agreements		116,539	48,735
On financing against shares		-	2,074
		<u>1,813,956</u>	<u>1,094,585</u>
24. MARK-UP/ RETURN / INTEREST EXPENSED			
Deposits		1,228,087	442,400
Securities sold under repurchase agreements		44,925	37,805
Borrowings from the State Bank of Pakistan under export refinance		98,916	52,151
Call borrowings		15,293	87,678
Short term borrowings		25,850	15,946
Term Finance Certificates		-	4,649
Long term borrowings		2,390	2,583
Forward cover fee		307	327
Amortisation of premium on securities		35,319	39,398
		<u>1,451,087</u>	<u>682,937</u>
25. GAIN ON SALE OF SECURITIES - NET			
Ordinary shares - listed		141,081	41,195
26. OTHER INCOME			
Gain on disposal of fixed assets - net		3,383	5,899
Revenue from rendering technology services		18,999	4,590
Others		25,560	18,987
		<u>47,942</u>	<u>29,476</u>

	Note	2006 (Rupees in '000)	2005
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits*		526,396	381,186
Contribution to defined contribution plan		15,523	10,659
Rent, taxes, insurance and electricity		117,983	78,971
Legal and professional charges		36,479	24,033
Communication		61,419	42,700
Repairs and maintenance		35,766	27,240
Software and IT service charges		8,607	17,153
Finance charges on lease obligations		2,499	2,504
Stationery and printing		19,121	16,512
Advertisement and publicity		78,825	58,295
Depreciation	11.2	111,808	79,103
Amortisation	27.1	32,015	23,430
Auditors' remuneration	27.2	2,478	3,126
Vehicle running expenses		15,379	10,683
Brokerage and commission		2,562	2,793
Security charges		15,356	9,517
Fee and subscription		59,913	71,747
Correspondence charges		9,703	5,950
Entertainment		6,843	4,771
Travelling expenses		48,456	33,546
Donations	27.3	1,589	13,857
Others		9,603	6,425
		<u>1,218,323</u>	<u>924,201</u>
* This includes an amount of Rs. 21.475 million (2005: Rs. Nil) that has been charged in the financial statements in respect of the defined benefit gratuity scheme.			
27.1 Amortisation			
Amortisation of goodwill		22,376	22,376
Amortisation of computer software	11.3	9,639	1,054
		<u>32,015</u>	<u>23,430</u>
27.2 Auditors' remuneration			
Audit fee		983	665
Fee for half yearly review		260	265
Special certifications and sundry advisory services		260	990
Tax services		714	1,010
Out-of-pocket expenses		261	196
		<u>2,478</u>	<u>3,126</u>
27.3 Donations made during the year in excess of Rs. 100,000			
Citizen's Foundation		175	3,000
President Relief Fund 2005		-	5,000
KASB Foundation	27.3.1	1,260	3,100
Grapevine		-	500
Khidmat-e-Khalq Foundation		-	150
Lahore University of Management Sciences		-	-
		<u>1,435</u>	<u>11,750</u>

27.3.1 This represents a donation of Rs 1.26 million (2005: Rs 3.1 million) given to Khadim Ali Shah Bukhari (KASB) Foundation, 84-B, S.M.C.H.S., Karachi, in which a director of the holding company is a trustee. Beside this, none of the directors or their spouse have any interest in any donee fund to which donations have been made.

	2006	2005
	(Rupees in '000)	
28. OTHER PROVISIONS / WRITE OFFS		
Security deposits written off	976	-
Provision against other assets	375	-
Fixed assets written off	105	54
Other provisions / write-offs	(10)	27,015
	<u>1,446</u>	<u>27,069</u>
29. OTHER CHARGES		
Penalties imposed by the State Bank of Pakistan	<u>5,188</u>	<u>3,994</u>
30. TAXATION		
For the year		
Current	85,104	50,013
Deferred	(163,428)	(251,268)
	<u>(78,324)</u>	<u>(201,255)</u>
For prior years		
Current	(1,826)	(1,235)
Deferred	2,109	-
	<u>(78,041)</u>	<u>(202,490)</u>
30.1 Relationship between tax expense and accounting profit / (loss)		2006
Profit before taxation		<u>123,759</u>
Tax at the applicable tax rate of 35 percent		43,316
Tax effect on separate block of income		(74,001)
Tax effect on exempt income		(78,345)
Tax effect on permanent differences		(34,527)
Minimum tax		25
Deferred tax - prior years		2,109
Others		63,382
		<u>(78,041)</u>
30.2	<p>The income tax assessments of the bank have been finalised upto and including the Tax Year 2006. The assessment for the Tax Year 2004 has been amended by the Taxation Officer resulting in an additional tax liability of Rs 68.456 million. The Commissioner of Income Tax Appeals (CIT – Appeals) through its order dated May 15, 2006 has also decided the matter against the bank and has maintained the disallowances made by the Taxation Officer. In this regard, the bank has filed an appeal before the Income Tax Appellate Tribunal (ITAT) which is pending till date.</p> <p>The management is hopeful of a favourable decision in appeals. However, on a prudent basis, in connection with the above, tax impact of Rs 16.927 million in respect of certain disallowances made by the income tax authorities has been incorporated in these financial statements. No provision for any implication arising out of the above disallowances has been made in these financial statements in respect of the current year or other Tax Years which are deemed to be assessed under the Income Tax Ordinance, 2001.</p> <p>Further, the income tax assessment years 1999-2000 to 2002-2003 are pending at various appellate stages. During the current year, the bank received an appellate order from the CIT (Appeals) in respect of assessment year 2002-2003 and a refund of Rs 1.178 million has been determined.</p>	
30.3	<p>During the year appellate orders were received by Mirpur Azad Kashmir branch of the bank in respect of assessment years 2001-2002 and 2002-2003, tax year 2003 and tax year 2004. Tax demand of Rs. 0.055 million, Rs. 0.570 million and Rs. 2.243 million was raised in respect of assessment year 2002-2003, tax year 2003 and tax year 2004 respectively. The bank has paid the demand raised by the authorities. However, the bank has filed appeals with the ITAT in respect of disallowances of certain expenses. The bank has also filed an application for the constitution of an Alternate Dispute Resolution (ADR) Committee for the resolution of issues relating to mark-up on Head Office account and profit on debts paid to government departments without deduction of withholding tax.</p>	

	Note	2006 (Rupees in '000)	2005
31. BASIC / DILUTED EARNINGS PER SHARE			
Profit / (loss) for the year after taxation		201,800	(205,176)
		<u>201,800</u>	<u>(205,176)</u>
		Number of Shares	
Weighted average number of ordinary shares outstanding during the year		213,414,887	200,389,581
		<u>213,414,887</u>	<u>200,389,581</u>
		(Rupees)	
Basic and diluted earnings / (loss) per share - after tax		0.95	(1.02)
		<u>0.95</u>	<u>(1.02)</u>
32. CASH AND CASH EQUIVALENTS			
Cash and balances with treasury banks	6	2,305,248	1,082,856
Balances with other banks	7	976,257	876,446
Overdrawn nostro accounts		(8,188)	(335,414)
Short term borrowings - running finance		-	(194,693)
		<u>3,273,317</u>	<u>1,429,195</u>
33. STAFF STRENGTH		Number	
Permanent		771	646
Temporary / on contractual basis		65	55
Group's own staff strength at the end of the year		<u>836</u>	<u>701</u>
Outsourced*		370	246
Total staff strength		<u>1,206</u>	<u>947</u>
		<u>1,206</u>	<u>947</u>
		* Outsourced staff includes those employees that are hired by an outside contractor / agency and are posted in the group to perform various tasks / activities of the group.	
34. STAFF RETIREMENT BENEFITS			
34.1 Defined contribution plan			
The group operates a recognised provident fund scheme for all its permanent employees which is administered by the Board of Trustees. The group and the employees make matching contributions to the fund at the rate of 8.33 percent of basic salary in accordance with the rules of the Trust.			
34.2 Defined benefit scheme			
The bank has introduced an approved unfunded gratuity scheme for all its permanent employees in the current year. The actuarial valuation of the gratuity scheme was carried out as at December 31, 2006 using the Projected Unit Credit Method. The following significant assumptions were used for the valuation of the scheme:			
		2006	2005
Discount rate		10%	-
Expected rate of return on plan assets		-	-
Expected rate of salary increase		10%	-
		2006	2005
34.3 Reconciliation of liability recognised by the bank		(Rupees in '000)	
Present value of unfunded obligations		26,815	-
Fair value of plan assets		-	-
Unrecognised actuarial losses		-	-
Unrecognised past service cost		(6,052)	-
Liability recognised by the bank		<u>20,763</u>	<u>-</u>
		<u>20,763</u>	<u>-</u>
34.4 Movement in liability recognised by the bank			
Balance as at January 1		-	-
Charge for the year		21,475	-
Payments made during the year		(712)	-
Balance as at December 31		<u>20,763</u>	<u>-</u>
		<u>20,763</u>	<u>-</u>

	2006	2005
	(Rupees in '000)	
34.5 Charge for the year		
Current service cost	4,653	-
Interest cost	1,018	-
Actuarial losses recognised	788	-
Past service cost recognised	15,016	-
	<u>21,475</u>	<u>-</u>

35. COMPENSATION OF DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration, including all benefits to the Chief Executives, Directors and Executives of the group is as follows:

	President / Chief Executive		Directors		Executives	
	2006	2005	2006	2005	2006	2005
	-----Rupees in 000-----					
Fees	-	-	2,497	4,547	-	-
Managerial remuneration	10,552	9,540	708	7,409	76,631	52,458
Contribution to defined contribution plan	767	474	18	471	5,181	2,968
Contribution to defined benefit plan	393	-	-	-	6,159	-
Rent and house maintenance	2,461	1,323	323	2,086	20,995	11,372
Utilities	774	535	35	603	6,931	4,211
Medical	704	342	35	546	6,917	3,698
Others	2,193	688	158	2,483	11,611	10,066
	<u>17,844</u>	<u>12,902</u>	<u>3,774</u>	<u>18,145</u>	<u>134,425</u>	<u>84,773</u>
Number of persons	<u>4</u>	<u>5</u>	<u>13</u>	<u>14</u>	<u>80</u>	<u>57</u>

35.1 Fees paid to directors includes fees in respect of three directors of the bank who left employment during the year.

35.2 The group provides free use of bank maintained cars to the Chief Executive and certain executives in accordance with the terms of their employment.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

36.1 On-balance sheet financial instruments

	2006		2005	
	Book value	Fair value	Book value	Fair value
	-----Rupees in 000-----			
Assets				
Cash balances with treasury banks	2,305,248	2,305,248	1,082,856	1,082,856
Balances with other banks	976,257	976,257	876,446	876,446
Lendings to financial institutions	2,305,232	2,305,232	1,077,546	1,077,546
Investments	4,635,204	4,635,204	3,593,668	3,593,668
Advances	14,489,626	231,325	10,695,320	10,695,320
Other assets	1,236,091	284,236	269,662	269,662
	<u>25,947,658</u>	<u>10,737,502</u>	<u>17,595,498</u>	<u>17,595,498</u>
Liabilities				
Bills payable	199,670	199,670	127,446	127,446
Borrowings	2,176,032	2,176,032	2,126,141	2,126,141
Deposits and other accounts	21,191,480	21,191,480	14,700,257	14,700,257
Sub-ordinated loans	-	-	-	-
Liabilities against assets subject to finance lease	18,979	18,979	18,836	18,836
Other liabilities	1,773,822	1,773,822	1,642,580	1,642,580
	<u>25,359,983</u>	<u>25,359,983</u>	<u>18,615,260</u>	<u>18,615,260</u>

36.2 Off-balance sheet financial instruments

Forward purchase of foreign exchange	63,847	64,063	1,205,961	1,202,391
Forward agreements for borrowings	-	-	-	-
Forward sale of foreign exchange	303,905	303,792	1,449,416	1,440,468
Forward agreements for lendings	-	-	-	-

37. Segment details with respect to business activities

The segment analysis with respect to business activities of the bank is as follows:

	Corporate finance	Trading & sales	Retail banking	Commercial banking	Payment & settlement	Agency services	Asset management	Retail brokerage	Others	Total
Rupees in 000										
December 31, 2006										
Total income (net of interest expense and provisions)	37,700	334,134	180,303	227,794	-	-	10,828	173,059	384,898	1,348,716
Administrative and other expenses	-	10,541	-	976	-	-	20,141	-	1,193,299	1,224,957
Net income / (loss) before tax	37,700	323,593	180,303	226,818	-	-	(9,313)	173,059	(808,401)	123,759
Segment assets (gross)	2,212	8,293,594	438,360	14,136,221	-	-	(8,740)	1,304,187	4,312,800	28,478,634
Segment non-performing loans	-	-	183,550	833,160	-	-	-	-	-	1,016,710
Segment provision required	-	5,414	157,528	537,533	-	-	-	-	4,707	705,182
Segment liabilities	426	139,177	5,775,364	18,091,452	-	-	-	1,040,060	364,510	25,410,989

37.1 The group is in the process of upgrading its systems and this will also appropriately cater to the information requirements for preparation of an accurate and meaningful segment analysis. However, in the interim stage, the above analysis has been prepared on the basis of certain estimates and application of judgement including the following:

- cost of deposits has been allocated to the business activities on the basis of the ratio of different types of deposits. The ratio used has been determined based on the deposits of the bank as at December 31, 2006.
- net investment in finance leases has been classified under the commercial banking activity.
- deferred taxation on provision against advances and mark-up in suspense account has been classified under the commercial banking activity, while the remaining deferred tax balance has been classified as "others".

38. TRUST ACTIVITIES

A subsidiary of the group has handled the business of managed equity investment on behalf of certain clients. The assets acquired in this capacity are not treated as assets of the company and accordingly are not included in these accounts held in such capacity are as follows:

	2006 (Rupees in '000)	2005 (Rupees in '000)
Cash at bank	182	183
Marketable securities	1,842	1,842
Amount due to the company	(1,169)	(1,169)

39. RELATED PARTY TRANSACTIONS

The group has related party relationships with its associated undertakings, employee benefit plans, and its key management personnel (including their associates).

Transactions between the group and its related parties are carried out at arm's length under the comparable uncontrolled price method, except for communication expenses that are carried out on 'cost plus' method.

Details of loans and advances to the companies or firms in which the directors of the group are interested as directors, partners or in case of private companies as members, are given in note 10.7 to these financial statements. There were no transactions with key management personnel other than those that are entered into with them under the terms of their employment. Details of remuneration to the executives and disposals of vehicles are disclosed in notes 35 and 11.7 to these financial statements, respectively.

	2006			2005		
	Directors	Key Management Personnel	Associates	Directors	Key Management Personnel	Associates
Balances outstanding as at the period end						
Loans and advances						
Balance as at January 1	-	21,059	1,738 *	-	19,475	-
Disbursed during the year	-	19,072	4,896	-	19,209	-
Repayments during the year	-	14,227	1,505	-	17,625	-
Balance as at December 31	-	25,904	5,129	-	21,059	-
Deposit accounts						
Balance as at January 1	3,801	4,333	9,022	1,819	3,592	1,934
Disbursed during the year	757,739	66,412	1,541,209	680,074	3,918	57,360
Repayments during the year	757,431	64,260	1,547,666	678,092	3,177	52,539
Balance as at December 31	4,109	6,485	2,565	3,801	4,333	6,755
Unearned mark-up	-	-	1,428 **	-	-	-
Investments	-	-	290,000	-	-	- **
Security Deposit against lease advances	-	-	735	-	-	-
Receivable against expenses	-	1,379	98	-	46,045	-
Commission income receivable	-	-	-	-	-	-
Creditors - Trading	-	568	114	-	-	-
Bank profit payable	367	-	-	-	-	-
Receivables - Trading	-	142	112	-	-	-
Advance against disposal of property	-	-	108,675	-	-	-
Advance against purchase of office equipment	-	-	-	-	108,745	-
Admin Expense Payable	-	-	3,127	73,986	7,154	-
Prepayments	-	-	1881	-	-	-
Payables	74,859	-	-	-	-	-
Distribution income and facilitation commission	-	-	114	-	-	-

* This amount represents transactions with KASB Funds Limited which was a subsidiary as at December 31, 2005, however, in the current year KASB Funds Limited became an associate therefore the opening balances are reported in Associates.

** Previous year this amount was subtracted from Loans and advances.

	2006			2005		
	Directors	Key Management Personnel	Associates	Directors	Key Management Personnel	Associates
Profit / Expense for the period						
Brokerage income	-	122	3,018	6,811	2,965	-
Consultancy charges	-	-	-	2,520	2,220	-
Interest income on advances	-	699	299	-	-	-
Interest expense on deposits	379	103	940	-	-	-
Capital gain	-	-	340	-	-	-
Communication expenses	-	-	12,480	-	-	-
Advertisement sponsorship	-	-	2,190	-	-	1,287
Management fee	-	2,411	-	-	-	-
Remuneration paid	1,500	73,132	-	-	-	-
Brokerage expenses paid	-	-	191	-	-	-
Payment made to KASB Funds in respect of purchase of shares	-	-	15,000	-	-	-
Payment made to KASB Funds in respect of reverse repurchase of listed securities	-	-	3,755	-	-	-
Director Fee	2,610	-	-	-	-	-
Financial advisory fee	-	-	422	-	-	-
Proceed from sale of property	-	-	317	-	-	-
Purchase of fixed assets	-	-	581	-	-	-
Donations	-	-	200	-	-	3,100
Bank charges	-	-	3	-	-	-
Lease documentation income	-	-	6	-	-	-
Distribution and facilitation income	-	-	378	-	-	-
Reimbursement of expenses incurred by KASB securities on behalf KASB Funds	-	-	4,032	-	-	-

2006 2005
(Rupees in '000)

Contribution to staff provident fund	15,523	10,659
Contribution to gratuity Scheme	21,475	-

40. CAPITAL ADEQUACY**40.1 Capital Adequacy Ratio**

The capital to risk weighted assets ratio, calculated in accordance with the State Bank of Pakistan's guidelines on capital adequacy was as follows:

		2006	2005		
		Rupees in '000			
Regulatory capital base					
Tier I capital					
Share capital		2,292,707	2,014,707		
Reserves		58,921	5,039		
Accumulated losses		(62,876)	(210,794)		
Less: Adjustments		(179,910)	(194,106)		
Tier I capital		<u>2,108,842</u>	<u>1,614,846</u>		
Tier II capital					
General provisions subject to 1.25% of total risk weighted assets		1,577	1,182		
Eligible surplus on revaluation of securities		34,091	15,350		
Total Tier II capital		<u>35,668</u>	<u>16,532</u>		
		2,144,510	1,631,378		
Eligible Tier III capital		-	-		
Total regulatory capital	(a)	<u>2,144,510</u>	<u>1,631,378</u>		
Risk-weighted exposures					
		2006		2005	
		Book Value	Risk Adjusted Value	Book Value	Risk Adjusted Value
		-----Rupees in 000-----			
Credit Risk					
Balance sheet items:					
Cash and balances with treasury banks		2,305,248	11,651	1,082,856	14,090
Balances with other banks		976,257	195,251	876,446	175,289
Lendings to financial institutions		2,305,232	750,000	1,077,546	800,000
Investments		4,635,204	2,077,213	3,635,037	761,406
Advances		13,796,498	12,758,705	10,234,104	9,420,515
Operating fixed assets		915,397	915,397	701,701	701,701
Deferred tax assets - net		538,267	538,267	383,746	383,746
Other assets		1,608,221	1,373,932	2,018,542	1,803,675
		<u>27,080,324</u>	<u>18,620,416</u>	<u>20,009,978</u>	<u>14,060,422</u>
Off balance sheet items					
Loan repayment guarantees	40.30	2,069,665	2,069,665	1,101,314	1,101,314
Performance Bonds etc	40.30	2,784,751	1,392,376	1,654,761	827,381
Stand by letters of credit	40.30	2,739,219	1,369,609	2,175,190	1,087,595
Outstanding foreign exchange contracts					
-Purchase		63,847	496	1,205,961	5,208
-Sale		303,905	498	1,449,416	5,009
		<u>7,961,387</u>	<u>4,832,644</u>	<u>7,586,642</u>	<u>3,026,507</u>
Credit risk-weighted exposures			<u>23,453,060</u>		<u>17,086,929</u>
Market risk					
General market risk			231,325		133,975
Specific market Risk			284,236		241,038
Market risk-weighted exposures			<u>515,561</u>		<u>375,013</u>
Total risk-weighted exposures	(b)		<u>23,968,621</u>		<u>17,461,942</u>
Capital Adequacy Ratio [(a) / (b) x 100]			<u>8.95%</u>		<u>9.34%</u>

40.2 These are stated gross of general reserve amounting to Rs 1,577 thousand (2005: Rs. nil). This reserve has been added to supplementary capital. Further, the amount of cash margins, deposits and government securities deducted is Rs. 694,705 thousand (2005: Rs. 461,216 thousand).

40.3 Cash margins, deposits and government securities deducted from loan repayment guarantees, performance bonds and letters of credit amount to Rs. 47,026 thousand (2005: Rs 13,575 thousand), Rs. 245,333 thousand (2005: Rs. 187,641 thousand) and Rs. 83,727 thousand (2005: Rs. 61,159 thousand) respectively.

40.4 Contracts having original maturities of 14 days or less have been excluded.

41. RISK MANAGEMENT

The group's business activities, expose it to a wide variety of risks, which are inherent in virtually all aspects of its operations. The management goal in managing these risks is to protect the enterprise from an unacceptable level of earnings volatility while supporting and enabling business opportunities. This is done by ensuring that the risks arising from business activities and transactions provide an appropriate balance of return for the risk assumed and remain within the group's risk appetite. KASB Bank has recently initiated a process to set up a risk management framework which is designed to ensure sound risk management practices guided by best industry practices. The cornerstone of our risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and limits, which involve our risk management professionals, business segments and other functional teams. This partnership is designed to ensure the ongoing alignment of business strategies and activities with our risk appetite. The primary risks associated with the bank are:

- Credit risk is the risk of loss resulting from client or counterparty default
- Market risk is exposure to market variables such as interest rates, exchange rates and equity indices
- Liquidity risk is the risk that the bank may be unable to meet its payment obligations when due
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and therefore includes legal risk

Representations of risk are for a given period and the Bank's risk management will constantly evolve as its business activities change in response to credit, market, product and other developments. There have been many initiatives started by the Bank including IT projects for replacing the core Banking system, business process re-engineering and inventorying the risks and controls within the Bank's existing business and process units. All of these initiatives, as they partially or completely roll out, will have a direct impact on the risk management function within the Bank.

The Risk Management structure at KASB Bank has recently been reorganized to have Credit Administration, Financial Risk, Credit Policy, Consumer and Retail Credit, Credit Risk Management and Operational Risk and Basel II functions reporting directly to Group Head Risk Management. The Bank is in the process of putting the new structure in place and is also involved in the screening and appointing of critical human resources in each area. The main objective is to develop a dedicated risk management team which is capable of developing and maintaining a sound risk management culture at the Bank.

41.1 Credit Risk

Credit risk is the risk of loss to the Bank as a result of failure by a client or counterparty to meet its contractual obligations. It is inherent in loans, commitments to lend and contingent liabilities, such as letters of credit – and in traded products, repurchase agreements (repos and reverse repos) and securities borrowing and lending transactions.

The role of the Risk Management in credit risk includes:

- Participation in portfolio planning and management.
- Establishment of credit policies and standards that conform to regulatory requirements and the Bank's overall objectives.
- Working with Business Groups in keeping aggregate credit risk well within the Bank's risk taking capacity.
- Developing and maintaining Credit Approval Authority structure.
- Approving major credits.
- Recommending approval authority to qualified and experienced individuals.
- Reviewing the adequacy of credit training across the Bank.
- Organizing portfolio reviews focusing on quality assessment, risk profiles, industry concentrations, etc.
- Setting systems to identify significant portfolio indicators, problem credits and level of provisioning required.

The wholesale portfolio, which includes corporate, Middle Market and SME loans are ideally collateralized by cash equivalents, fixed and current assets including stocks, property plant and equipment, and land. Loans to individuals are typically secured by cash equivalents or residential mortgage.

The Bank manages limits and controls concentrations of credit risk as identified, in particular to individual counterparties and groups, and to industries, where appropriate. Concentrations of credit risk exist if clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. The Bank sets limits on its credit exposure to counterparty groups, by industry, product, counterparty and geographical location, in line with SBP directions/guidelines. Limits are also applied in a variety of forms to portfolios or sectors where the Bank considers it appropriate to restrict credit risk concentrations or areas of higher risk, or to control the rate of portfolio growth.

41.1.1 Segmental information

41.1.1.1 Segments by class of business	2006					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	209,476	1.38%	279,453	1.32%	186,745	2.19%
Mining and Quarrying	132,743	0.87%	330,960	1.56%	-	0.00%
Textile	3,397,399	22.37%	830,727	3.92%	1,235,160	14.49%
Chemical and Pharmaceuticals	450,059	2.96%	201,290	0.95%	672,808	7.89%
Cement	706,192	4.65%	77,674	0.37%	2,048	0.02%
Sugar	-	0.00%	4,407	0.02%	-	0.00%
Footwear and Leather garments	161,562	1.06%	19,394	0.09%	5,068	0.06%
Automobile and transportation equipment	534,605	3.52%	214,219	1.01%	180,396	2.12%
Electronics and electrical appliances	219,737	1.45%	590,937	2.79%	15,115	0.18%
Construction	545,585	3.59%	1,289,370	6.08%	170,815	2.00%
Base Metal	-	0.00%	-	0.00%	637,330	7.48%
Power (electricity), Gas, Water, Sanitary	67,250	0.44%	635,086	3.00%	255,388	3.00%
Wholesale and Retail Trade	1,600,814	10.54%	1,988,566	9.38%	252,336	2.96%
Exports/Imports	650,969	4.29%	161,747	0.76%	-	0.00%
Transport, Storage and Communication	1,307,897	8.61%	165,860	0.78%	765,388	8.98%
Financial	1,255,720	8.27%	2,828,704	13.35%	330,310	3.87%
Insurance	1,932	0.01%	338,906	1.60%	-	0.00%
Services	946,977	6.24%	1,501,716	7.09%	19,933	0.23%
Individuals	1,061,189	6.99%	4,882,601	23.04%	-	0.00%
Others	1,934,581	12.74%	4,849,863	22.89%	3,797,096	44.54%
	<u>15,184,687</u>	<u>100.00%</u>	<u>21,191,480</u>	<u>100.00%</u>	<u>8,525,936</u>	<u>100.00%</u>

Segments by class of business	2005					
	Advances (Gross)		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Agriculture, Forestry, Hunting and Fishing	12,136	0.11%	24,542	0.17%	892	0.01%
Mining and Quarrying	-	0.00%	-	0.00%	-	0.00%
Textile	3,434,825	30.25%	1,346,947	9.16%	878,261	10.98%
Chemical and Pharmaceuticals	260,528	2.29%	84,952	0.58%	205,879	2.57%
Cement	87,581	0.77%	5,913	0.04%	710,120	8.87%
Sugar	20,000	0.18%	179,903	1.22%	150,000	1.87%
Footwear and Leather garments	18,289	0.16%	19,091	0.13%	42,865	0.54%
Automobile and transportation equipment	1,559,669	13.74%	471,061	3.20%	131,646	1.65%
Electronics and electrical appliances	121,409	1.07%	357,041	2.43%	339,450	4.24%
Construction	5,628	0.05%	-	0.00%	-	0.00%
Power (electricity), Gas, Water, Sanitary	402,984	3.55%	806,101	5.48%	246,263	3.08%
Wholesale and Retail Trade	1,851	0.02%	-	0.00%	-	0.00%
Exports/Imports	18,224	0.16%	-	0.00%	-	0.00%
Transport, Storage and Communication	-	0.00%	-	0.00%	-	0.00%
Financial	145,620	1.28%	871,526	5.93%	2,625,938	32.81%
Insurance	1,479	0.01%	326,609	2.22%	-	0.00%
Services	-	0.00%	-	0.00%	-	0.00%
Individuals	1,055,615	9.30%	4,133,680	28.12%	3,314	0.04%
Others	4,207,815	37.06%	6,072,891	41.31%	2,667,676	33.34%
	<u>11,353,653</u>	<u>100.00%</u>	<u>14,700,257</u>	<u>100.00%</u>	<u>8,002,304</u>	<u>100.00%</u>

41.1.1.2 Segment by sector

	2006					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	-	0%	1,480,417	7%	8,858	0%
Private	15,184,687	100%	19,711,063	93%	8,517,078	100%
	<u>15,184,687</u>	<u>100%</u>	<u>21,191,480</u>	<u>100%</u>	<u>8,525,936</u>	<u>100%</u>

Segment by sector

	2005					
	Advances		Deposits		Contingencies and Commitments	
	Rupees in '000	Percent	Rupees in '000	Percent	Rupees in '000	Percent
Public/ Government	-	0.00%	1,792,489	12.19%	239,638	2.99%
Private	10,695,320	100.00%	12,907,768	87.81%	7,762,666	97.01%
	<u>10,695,320</u>	<u>100.00%</u>	<u>14,700,257</u>	<u>100.00%</u>	<u>8,002,304</u>	<u>100.00%</u>

41.1.1.3 Details of non-performing advances and specific provisions by class of business segment

	2006		2005		
	Classified Advances	Rupees in '000		Classified Advances	Specific Provisions Held
		Specific Provisions Held			
	-----Rupees in 000-----				
Agriculture, Forestry, Hunting and Fishing	3,750	3,750	2,300	2,300	
Mining and Quarrying	-	-	-	-	
Chemical & Pharmaceuticals	9,189	9,189	9,198	3,499	
Cement	-	-	-	-	
Textile	462,347	300,329	250,109	135,693	
Sugar	-	-	-	-	
Footwear & Leather garments	9,939	9,939	16,011	8,897	
Automobile & Transportation equipment	360,471	296,498	423,778	301,548	
Electronics and electrical appliances	25,917	14,371	26,508	13,842	
Construction	6,373	-	5,628	5,628	
Power (electricity), Gas, water, sanitary	-	-	-	-	
Wholesale / Retail Trade	1,780	1,780	3,271	1,851	
Exports / Imports	42,546	29,642	20,329	18,224	
Transport, Storage and Communication	-	-	-	-	
Financial	5,460	5,460	5,673	5,673	
Insurance	-	-	442	442	
Services	-	-	-	-	
Individuals	13,161	11,233	8,408	5,418	
Others	75,777	11,293	298,778	151,448	
	<u>1,016,710</u>	<u>693,484</u>	<u>1,070,433</u>	<u>654,463</u>	

41.1.1.4 Details of non-performing advances and specific provisions by sector

Public/ Government	-	-	-	-
Private	1,016,710	693,484	1,070,433	654,463
	<u>1,016,710</u>	<u>693,484</u>	<u>1,070,433</u>	<u>654,463</u>

41.1.1.5 Geographical segment analysis

	2006			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in 000-----			
Pakistan	123,759	27,773,452	2,362,464	8,525,936
Others	-	-	-	-
	<u>123,759</u>	<u>27,773,452</u>	<u>2,362,464</u>	<u>8,525,936</u>
	2005			
	Profit before taxation	Total assets employed	Net assets employed	Contingencies and commitments
	-----Rupees in 000-----			
Pakistan	(407,666)	20,471,194	1,819,834	8,002,304
Others	-	-	-	-
	<u>(407,666)</u>	<u>20,471,194</u>	<u>1,819,834</u>	<u>8,002,304</u>

Total assets employed include intra group items of Rs. Nil million

41.2 Market Risk

Market risk is the risk of loss arising from movements in market variables including observable variables such as interest rates, exchange rates and equity indices, and others which may be only indirectly observable such as volatilities and correlations.

Market risk measures and controls are applied at the portfolio level, and concentration limits and other controls are applied where necessary to individual risk types, to particular books and to specific exposures. Portfolio risk measures are common to all market risks, but concentration limits and other controls are tailored to the nature of the activities and the risks they create.

Trading activities are centered in the Treasury and include market making, facilitation of client business and proprietary position taking, fixed income and interest rate products and foreign exchange and also badla financing.

Controls are also applied to prevent any undue risk concentrations in trading books, taking into account variations in price volatility and market depth and liquidity. They include controls on exposure to individual market risk variables, such as individual interest or exchange rates ('risk factors'), and on positions in the securities of individual issuers.

Financial Risk Management Unit performs all market risk management activities within the Bank. FRM Unit department is responsible for developing and reviewing market risk policies, strategies & processes. It has to ensure monitoring and implementation of market risk and other policies, escalation of any deviation to senior management, compilation and MIS reporting, etc.

The scope of market risk management is as follows:

- To keep the market risk exposure within the bank's risk appetite as assigned by the Board of Directors (BOD).
- All the market risk policies are approved by the RMC of the Board and implementation is done by the senior management through MRPC, Treasury and FRM division.
- Various limits have been assigned on a portfolio basis.

41.2.1 Foreign Exchange Risk

Foreign Exchange Risk is the risk of loss resulting from changes in exchange rates. Foreign exchange positions are reported on a consolidated basis and limits are used to monitor exposure in individual currencies.

The trading exposures are subject to prescribed stress, sensitivity and concentration limits.

	2006			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency
	-----Rupees in 000-----			
Pakistan rupee	24,133,250	24,801,641	240,058	(428,333)
United States dollar	786,465	498,700	(240,901)	46,864
Great Britain pound	35,599	33,109	816	3,306
Deutsche mark	1,974	-	-	1,974
Japanese yen	1,357	5	-	1,352
Euro	36,220	26,528	27	9,719
Other currencies (to be specified, if material)	1,503	-	-	1,503
	<u>25,947,658</u>	<u>25,359,983</u>	<u>-</u>	<u>(363,615)</u>
	2005			
	Assets	Liabilities	Off-balance sheet items	Net foreign currency
	-----Rupees in 000-----			
Pakistan rupee	16,516,427	17,947,782	243,455	(1,187,900)
United States dollar	866,457	589,023	(152,773)	124,661
Great Britain pound	6,626	67,356	71,210	10,480
Canadian Dollar	60,744	-	(59,790)	954
Japanese yen	43,525	36	(41,881)	1,608
Euro	97,782	11,063	(60,221)	26,498
Other currencies (to be specified, if material)	3,937	-	-	3,937
	<u>17,595,498</u>	<u>18,615,260</u>	<u>-</u>	<u>(1,019,762)</u>

41.2.2 Equity position Risk

Equity position risk in trading book arises due to changes in prices of individual stocks or levels of equity indices. The Bank's equity trading book comprises of Held for trading (HFT) & Available for Sale (AFS) portfolios and Corporate Finance (CF) AFS portfolio. Objective of Treasury HFT portfolio is to take advantages of short-term capital gains, while the AFS portfolio is maintained with a medium-term view of capital gains and dividend income. CF maintains its AFS portfolio with a medium-long term view of capital gains and higher dividend yields.

41.2.3 Mismatch of Interest Rate Sensitive Assets and Liabilities

Yield risk is the risk of decline in earnings due to adverse movement of the yield curve. Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The bank is exposed to yield / interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or re-price in a given period. The bank manages this risk by matching the re-pricing of assets and liabilities and off-balance sheet instruments. The bank's yield / interest rate sensitivity position, based on the earlier of contractual re-pricing or maturity date, is as follows:

2006												
Effective yield/ interest rate	Exposed to Yield/ Interest risk										Non-interest bearing financial instruments	
	Total	Upto 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 months to 1 year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 5 to 10 years	Above 10 years		
-----Rupees in 000-----												
On-balance sheet financial instruments												
<u>Assets</u>												
Cash and balances with treasury banks	4.05%	2,305,248	80,228	-	-	-	-	-	-	-	-	2,225,020
Balances with other banks	4.25%	976,257	136,338	-	-	-	-	-	-	-	-	839,919
Lending to financial institutions	10.10%	2,305,232	1,638,076	592,156	75,000	-	-	-	-	-	-	-
Investments	8.27%	4,635,204	551,593	19,186	92,840	1,064,545	67,796	75,236	185,663	860,668	-	1,717,677
Advances												
Performing	11.73%	14,167,977	3,543,396	2,831,965	4,247,948	485,011	727,578	727,578	1,436,332	66,688	101,481	-
Non performing												
net of prov		321,649	-	-	-	-	-	-	-	-	-	321,649
Other assets		1,236,091	-	-	-	-	-	-	-	-	-	1,236,091
		<u>25,947,658</u>	<u>5,949,631</u>	<u>3,443,307</u>	<u>4,415,788</u>	<u>1,549,556</u>	<u>795,374</u>	<u>802,814</u>	<u>1,621,995</u>	<u>927,356</u>	<u>101,481</u>	<u>6,340,356</u>
<u>Liabilities</u>												
Bills payable		199,670	-	-	-	-	-	-	-	-	-	199,670
Borrowings	7.73%	2,176,032	188,842	361,307	541,961	1,083,922	-	-	-	-	-	-
Deposits and other accounts	9.13%	21,191,480	10,610,100	2,738,699	843,944	716,927	869,431	1,471,074	320,688	-	-	3,620,617
Sub-ordinated loans												
Liabilities against assets subject to finance lease	7.85%	18,979	936	1,935	2,156	4,361	7,156	1,606	829	-	-	-
Other liabilities		1,773,822	-	-	-	-	-	-	-	-	-	1,773,822
		<u>25,359,983</u>	<u>10,799,878</u>	<u>3,101,941</u>	<u>1,388,061</u>	<u>1,805,210</u>	<u>876,587</u>	<u>1,472,680</u>	<u>321,517</u>	<u>-</u>	<u>-</u>	<u>5,594,109</u>
On-balance sheet gap		<u>587,675</u>	<u>(4,850,247)</u>	<u>341,366</u>	<u>3,027,727</u>	<u>(255,654)</u>	<u>(81,213)</u>	<u>(669,866)</u>	<u>1,300,478</u>	<u>927,356</u>	<u>101,481</u>	<u>746,247</u>
Off-balance sheet financial instruments												
Forward purchase of foreign exchange		63,847	41,338	19,754	2,755	-	-	-	-	-	-	-
Forward sale of foreign exchange		(303,905)	(242,535)	(61,370)	-	-	-	-	-	-	-	-
Off-balance sheet gap		<u>(240,058)</u>	<u>(201,197)</u>	<u>(41,616)</u>	<u>2,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Yield/Interest Risk Sensitivity Gap		<u>(5,051,444)</u>	<u>299,750</u>	<u>3,030,482</u>	<u>(255,654)</u>	<u>(81,213)</u>	<u>(669,866)</u>	<u>1,300,478</u>	<u>927,356</u>	<u>101,481</u>	<u>746,247</u>	
Cumulative Yield/Interest Risk Sensitivity Gap		<u>(5,051,444)</u>	<u>(4,751,694)</u>	<u>(1,721,212)</u>	<u>(1,976,866)</u>	<u>(2,058,079)</u>	<u>(2,727,945)</u>	<u>(1,427,467)</u>	<u>(500,111)</u>	<u>(398,630)</u>	<u>347,617</u>	

41.3 Liquidity Risk

The group's approach to liquidity management is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking sustained damage to business franchises. A centralized approach is adopted, based on an integrated framework incorporating an assessment of all material known and expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. The framework entails careful monitoring and control of the daily liquidity position.

41.3.1 Maturities of Assets and Liabilities

	2006									
	Total	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 6 Months to 1 Year	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years
	Rupees in 000									
Assets										
Cash and balances with treasury banks	2,305,248	2,305,248	-	-	-	-	-	-	-	-
Balances with other banks	976,257	976,257	-	-	-	-	-	-	-	-
Lending to financial institutions	2,305,232	1,638,076	592,156	75,000	-	-	-	-	-	-
Investments	4,635,204	1,607,200	19,186	276,062	1,064,545	317,796	75,236	185,663	1,089,516	-
Advances										
Performing	14,167,977	3,543,396	2,831,965	4,247,948	485,011	727,578	727,578	1,436,332	66,688	101,481
Non performing - net of prov	321,649	321,649	-	-	-	-	-	-	-	-
Other assets	1,608,221	983,708	270,557	16,502	90,531	55,315	55,315	110,637	25,656	-
Deferred tax assets	538,267	(55,264)	(4,745)	(7,117)	52,231	28,398	17,107	(22,674)	28,457	501,874
Operating fixed assets	915,397	25,817	51,634	77,450	154,902	95,745	95,746	120,196	140,044	153,863
	27,773,452	11,346,087	3,760,753	4,685,845	1,847,220	1,224,832	970,982	1,830,154	1,350,361	757,218
Liabilities										
Bills payable	199,670	199,670	-	-	-	-	-	-	-	-
Borrowings	2,176,032	188,842	361,307	541,961	1,083,922	-	-	-	-	-
Deposits and other accounts	21,191,480	14,230,717	2,738,699	843,944	716,927	869,431	1,471,074	320,688	-	-
Sub-ordinated loans	-	-	-	-	-	-	-	-	-	-
Liabilities against assets subject to finance lease	18,979	936	1,935	2,156	4,361	7,156	1,606	829	-	-
Other liabilities	1,824,827	1,466,248	23,221	3,916	10,295	49,578	49,578	221,991	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-
	25,410,988	16,086,413	3,125,162	1,391,977	1,815,505	926,165	1,522,258	543,508	-	-
Net assets	2,362,464	(4,740,326)	635,591	3,293,868	31,715	298,667	(551,276)	1,286,646	1,350,361	757,218
Share capital	2,292,707									
Reserves	138,161									
Effect of fair value measurement of capital on amalgamation	(79,240)									
Accumulated loss	(62,876)									
Minority Interest	21,369									
Surplus/(Deficit) on revaluation of assets	52,343									
	2,362,464									

41.3.2 The above mentioned maturity profile has been prepared in accordance with International Accounting Standard (IAS) 30: "Disclosures in the financial statements of banks and similar financial institutions" based on contractual maturities. The management believes that such a maturity analysis does not reveal the expected maturity of current and savings deposits as a contractual maturity analysis of deposits alone does not provide information about the conditions expected in normal circumstances. The management believes that the maturity profile for deposits and other accounts, which includes maturities of current and savings deposits determined by the management keeping in view the historical withdrawal pattern of these deposits reflects a more meaningful analysis of the liquidity risk of the bank as follows:

	2006	2005
	----- Rupees in '000 -----	
Upto one month	4,698,724	5,331,326
One month to three months	5,140,051	327,341
Three months to six months	1,245,832	2,125,962
Six months to one year	1,863,729	654,680
One year to two years	1,840,905	1,159,195
Two years to three years	1,583,272	1,036,611
Three years to five years	1,718,009	1,105,541
Five years to ten years	3,100,958	2,959,601
Above ten years	-	-
	21,191,480	14,700,257

Current and saving deposits do not have any contractual maturity therefore, current deposits and saving accounts have been classified between all maturities upto 10 years. Further, it has been assumed that on a going concern basis, these deposits are not expected to fall below the current year's level.

41.4 Operational Risk

Operational Risk arises from a failure to properly control all aspects of the documentation, processing, settlement of and accounting for, transactions and more widely, all the hazards to which the bank is exposed to as a result of being in business and doing business. These risks and hazards arise predominantly from crime including fraud and theft committed by employees, customer or third parties, professional liability, contractual liability, statutory liability, business interruptions, malicious assault and attacks.

The Bank's Operational Risk Management implementation framework is based on an appropriate risk management architecture. The framework is flexible enough to be implemented in stages.

Following are the strategic initiatives that the Bank has undertaken for the effective implementation of Operational Risk Management:

- An effective and integrated operational risk management framework is in place, with appropriately defined roles and responsibilities for all aspects of the operational risk management.
- The bank is in the process of establishing appropriate tools which help in identification, assessment, control and reporting of key risks. The policy on operational risk will be submitted to BOD during the first Qtr of 2007.
- Operational risk management policies and procedures have been aligned to the overall business strategy and helps to continually improve risk management of the bank.
- All business and support functions have been made an integral part of the overall operational risk management framework to enable that the institution effectively manages the key operational risks facing the bank.
- Appropriate line management has been established for the identification, assessment and mitigation of operational risk.

A consolidated Business Continuity Plan is being augmented for the Bank which encompasses roles and responsibilities, disaster recovery strategy, IT systems and structural back ups, scenario and impact analyses and testing directives.

There are several IT developments underway in the credit, market and operational risk areas. Specifically for operational risk mitigation and control, an IT infrastructure is being developed along with the other high-level initiatives, including process re-engineering and inventorying of risks and controls within the Bank. A methodology for Risk and Control Self Assessment is approved and is under implementation across all the functions of the bank.

42. GENERAL

42.1 Revised forms of annual financial statements

These financial statements have been prepared using the revised format of financial statements prescribed in BSD Circular No. 4 dated February 17, 2006 issued by the State Bank of Pakistan. The revised format for presentation of financial statements is applicable for annual financial statements for periods commencing from January 1, 2006. The significant changes in the revised format for presentation of financial statements include the introduction of disclosures in respect of segment details with respect to business activities and capital adequacy and expanded disclosures in respect to derivative instruments and risk management.

42.2 Comparatives

Comparative information has been re-classified and re-arranged in these financial statements, wherever necessary, to facilitate comparison and to conform with changes in the presentation format of the financial statements in the current year. Significant reclassifications made to comparative figures are as follows:

- Cost of softwares and related accumulated amortisation amounting to Rs 24,835 thousand and Rs 404 thousand respectively have been reclassified to 'intangible assets'. Previously the cost of softwares net of accumulated amortisation was included in 'advances, deposits, advance rent and other prepayments' shown under the head 'other assets'.
- Cost of membership cards, rooms and booths at KSE amounting to Rs 12,199 thousand has been reclassified to 'intangible assets'. Previously, these were classified in 'other assets'.

43. DATE OF AUTHORISATION

These financial statements were authorised for issue on March 06, 2007 by the Board of Directors of the holding company, KASB Bank Limited.

President and Chief Executive

Director

Director

Director

**Statement showing written-off loans or any other financial relief
of five hundred thousands Rupees or above provided
during the year ended 31 December - 2006**

S. No.	Name and address of the borrowers	Name of individuals/ Partners/ directors with (NIC No.)	Father's Husband's Name	Outstanding liabilities at beginning of the year				Principal written-off	Interest/ Markup written-off	Other financial relief provided	Total (9+10+11)
				Principal	Interest/ Mark-up	Others	Total				
1	2	3	4	5	6	7	8	9	10	11	12
1	Mekran Fisheries	Azhar ul Haq Butt	Muzzafar Din	103.200			103.200	19.643			19.643
	Office at B2 / B4, Fish Harbour, West Wharf, Karachi.	512-93-097869 Tasawar ul Haq Butt 512-93-097849	Muzzafar Din								
		Tanveer ul Haq Butt 512-55-177952	Muzzafar Din								
		Imtiaz ul Haq Butt 512-91-177949	Muzzafar Din								
2	Fatima Fazal	Mian Shiraz Masud 101 64-083486	Mian Masud Ahmed	46.952	3.364	3.978	54.294	3.954	3.364		7.318
	Plot # 101-103, Industrial Triangle, Sihala Road, Islamabad	Mian Waqas Masud 101- 69-083488 Mian Shoukat Masud 101-89-083484 Gulzarina Begum 101- 40-083483	Mian Masud Ahmed								
3	Khokhar Travel	Zafar Iqbal	Sher Muhammad	2.135	1.156		3.291	2.135	1.156		3.291
	33, Street 38, F-10/4, Islamabad	227-67-546887									
4	Balouch Transport	Liaqat Ali Khan Khetran	Sardar Ahmed Nawaz Khan Khetran	9.870			9.870	1.380			1.380
	134 - A, Industrial estate Kot LakhPat, Green Town Lahore	35200-9070702-9 Nadir Ali 35202-30988653-5	Liaqat Ali Khan Khetran								
		Abdul Rehman Khan 32203-6205791-9 Muhammad Dilawar Khan 32203-4366402-7	Muhammad Ahmed Khan Sakhawat Ali Khan								
5	First Dada Bhoy	Abdul Rahim DadaBhoy	Muhammad Farooq DadaBhoy	0.213	1.565		1.778		1.453		1.453
	5, Lal Muhammad Chaudhary Road, Karachi.	517-88-229561 Osman DadaBhoy 517-92-229562	Muhammad Farooq DadaBhoy								
6	Diamond Tex	Shehzad Waseem 502-50-358062	Mian Muhammad Bashir		1.008		1.008		1.008		1.008
	87-Ground floor, Textile Plaza M.A. Jinnah Road, Karachi										
7	Bakers Delight	Moinuddin Qureshi 270-85-407504	Mumtazuddin Qureshi	0.846	0.231		1.077	0.846	0.231		1.077
	33 CCA (T), Phase II, DHA Lahore	Salman Moin Qureshi 270-62-103491	Moinuddin Qureshi								
8	Salman & Co.	Moinuddin Qureshi 270-85-407504	Mumtazuddin Qureshi	0.661	0.159		0.820	0.661	0.159		0.820
	146/1 Street 11, Cavalary Ground, Lahore.	Salman Moin Qureshi 270-62-103491	Moinuddin Qureshi								
9	Ali Con (Pvt) Ltd.	Iftikhar A.Farooqi	Faiz Muhammad Farooqi	3.752	0.241		3.993	0.752	0.241		0.993
	42, Link Alla-u-ddin Road off Zafar Afridi Road, Cantt Lahore	277-30-301654 Syed Zahoor Ahmed 351-22-182698	Muhammad Iqbal Hussain								
		Mustafa A. Farooqi 277-92-301658	Iftikhar Ahmed Farooqi								
29.371									7.612	0	36.983

PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 2006

No. of Shareholders	Share Holding		Total number of shares held	Percentage
	From	To		
2,079	1	100	100,805	0.04%
2,264	101	500	449,687	0.20%
2,124	501	1,000	1,463,681	0.64%
627	1,001	5,000	1,432,344	0.62%
117	5,001	10,000	811,893	0.35%
50	10,001	15,000	636,036	0.28%
22	15,001	20,000	390,445	0.17%
16	20,001	25,000	350,507	0.15%
5	25,001	30,000	137,200	0.06%
5	30,001	35,000	163,715	0.07%
3	35,001	40,000	113,104	0.05%
1	40,001	45,000	44,769	0.02%
3	45,001	50,000	150,000	0.07%
2	50,001	55,000	103,600	0.05%
1	55,001	60,000	60,000	0.03%
2	60,001	65,000	123,329	0.05%
1	65,001	70,000	70,000	0.03%
1	70,001	75,000	72,629	0.03%
2	80,001	85,000	164,293	0.07%
2	95,001	100,000	197,020	0.09%
2	100,001	105,000	206,031	0.09%
1	110,001	115,000	110,880	0.05%
1	120,001	125,000	123,200	0.05%
1	130,001	135,000	130,838	0.06%
2	150,001	155,000	304,920	0.13%
1	160,001	165,000	163,548	0.07%
1	165,001	170,000	166,320	0.07%
1	180,001	185,000	183,000	0.08%
2	190,001	195,000	388,080	0.17%
1	195,001	200,000	196,257	0.09%
1	205,001	210,000	210,000	0.09%
1	215,001	220,000	216,282	0.09%
1	345,001	350,000	348,000	0.15%
1	390,001	395,000	394,945	0.17%
1	445,001	450,000	450,000	0.20%
1	495,001	500,000	500,000	0.22%
1	600,001	605,000	602,000	0.26%
1	602,001	625,000	621,206	0.27%
2	705,001	710,000	1,416,009	0.62%
1	905,001	910,000	908,518	0.40%
1	1,030,001	1,035,000	1,034,227	0.45%
1	1,090,001	1,095,000	1,091,806	0.48%
1	1,115,001	1,120,000	1,115,374	0.49%
1	2,995,001	3,000,000	3,000,000	1.31%
1	3,000,001	3,005,000	3,000,285	1.31%
1	3,190,001	3,195,000	3,193,932	1.39%
1	5,225,001	5,230,000	5,225,807	2.28%
1	6,205,001	6,210,000	6,208,000	2.71%
4	7,135,001	7,140,000	28,554,240	12.45%
1	9,360,001	9,365,000	9,363,500	4.08%
3	9,435,001	9,440,000	28,320,000	12.35%
1	9,450,001	9,455,000	9,452,173	4.12%
1	17,675,001	17,680,000	17,676,600	7.71%
1	19,865,001	19,870,000	19,865,947	8.66%
1	21,075,001	21,080,000	21,077,865	9.19%
1	56,415,001	56,420,000	56,415,951	24.61%
7,372			229,270,798	100.00%

**DETAILS OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS
OF CODE OF CORPORATE GOVERNANCE**

CATEGORIES OF SHARE HOLDER	SHARE HELD
INDIVIDUALS	38,629,032
INVESTMENT COMPANIES	965,500
JOINT STOCK COMPANIES	12,842,210
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR	
MR. NASIR ALI SHAH BUKHARI	56,415,951
MRS. AMBREEN BUKHARI (SPOUSE OF MR. NASIR ALI SHAH BUKHARI)	9,452,173
MASTER MAHMOOD ALI SHAH BUKHARI (MINOR SON MR. NASIR ALI SHAH BUKHARI)	9,440,000
MR. H.U. BEG (CHAIRMAN)	707,623
MR. N.K. SHAHANI (DIRECTOR)	3,000
MR. IRTAZA HUSSAIN (DIRECTOR)	500
MR. SOHAIL WAJAHAT H. SIDDIQUI (DIRECTOR)	778
MR. TARIQ MUHAMMAD ALI RANGOONWALA (DIRECTOR)	3,327
MR. MUNEEB KAMAL (PRESIDENT & CEO)	500
EXECUTIVE	
SYEDA MUBASHIRA BUKHARI	9,440,000
MR. WAQAR AHMED KHAN (IN THE NAME OF SON MANSOOR AHMED KHAN)	10,000
MR. MUHAMMAD HAMIDULLAH	1,399
MR. MUHAMMAD RIAZ BUTT	817
MR. SHAUKAT ALI	778
NIT/ICP	
NATIONAL BANK OF PAKISTAN, TRUSTEE DEPT BANKS, DFIs, NBFIs, INSURANCE COMPANIES, MODARABAS & MUTUAL FUNDS	621,206
FOREIGN INVESTORS	85,481,846
CHARITABLE TRUSTS	43
OTHERS	3,000

CATEGORIES OF SHAREHOLDERS

PARTICULARS	SHAREHOLDERS	SHAREHOLDING	PERCENTAGE
INDIVIDUALS	7,225	38,629,032	16.85%
INVESTMENT COMPANIES	3	965,500	0.42%
JOINT STOCK COMPANIES	79	12,842,210	5.60%
DIRECTORS, CEO, THEIR SPOUSE & MINOR CHILD	9	76,023,852	33.16%
EXECUTIVES	5	9,452,994	4.12%
NIT / ICP	1	621,206	0.27%
FINANCIAL INSTITUTIONS	5	5,228,611	2.28%
INSURANCE COMPANIES	3	22,152	0.01%
MODARABA COMPANIES	1	352	0.00%
FOREIGN INVESTORS	39	85,481,846	37.28%
CHARITABLE TRUST	1	43	0.00%
OTHERS	1	3,000	0.00%
	7,372	229,270,798	100.000%

FORM OF PROXY
TWELFTH ANNUAL GENERAL MEETING

The Company Secretary,
KASB Bank Limited
Business & Finance Centre,
I.I. Chundrigar Road,
Karachi-74000

I/We _____
of _____ being
member(s) of KASB Bank Limited holding _____
Ordinary share hereby appoint _____
of _____ or failing him/her _____
of _____ who are also member(s) of the Bank, as
my/our proxy in my/our absence to attend and vote for me/us, and on my/our behalf at the
Twelfth Annual General Meeting of the Bank to be held on Wednesday, March 28, 2007 at
11:00 AM at Pearl Continental Hotel, Club Road, Karachi and/or any adjournment thereof.

As witness my/our hand this _____ day of _____ 2007

Shareholder Folio No.
Or
CDC Participant I.D. No.
&
Sub Account No.

Signature on
Five Rupee
Revenue Stamp



The signature should
agree with the
specimen registered
with the Company

NOTES:

1. This proxy form, duly completed and signed, must be received at the Registered Office of the Bank, Business & Finance Centre, I.I Chundrigar Road, Karachi, not less the 48 hours before the time of holding the meeting.
2. No person shall act as proxy unless he/she himself/herself is a member of the Bank, except that a corporation may appoint a person who is not a member.
3. If a member appoints more than one proxy, and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
4. CDC shareholders and their proxies are each requested to attach an attested photocopy of their National Identity Card or passport with this proxy form before submission to the Company.